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**CITY OF COMPTON**

**Single Audit Report**

**For the Year Ended June 30, 2009**

SAR  
5/28/10



**CITY OF COMPTON**  
**Single Audit Report**  
**For the Year Ended June 30, 2009**

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**MACIAS GINI & O'CONNELL LLP**  
Certified Public Accountants & Management Consultants

LOS ANGELES  
515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

The Honorable City Council  
City of Compton, California

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Compton, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

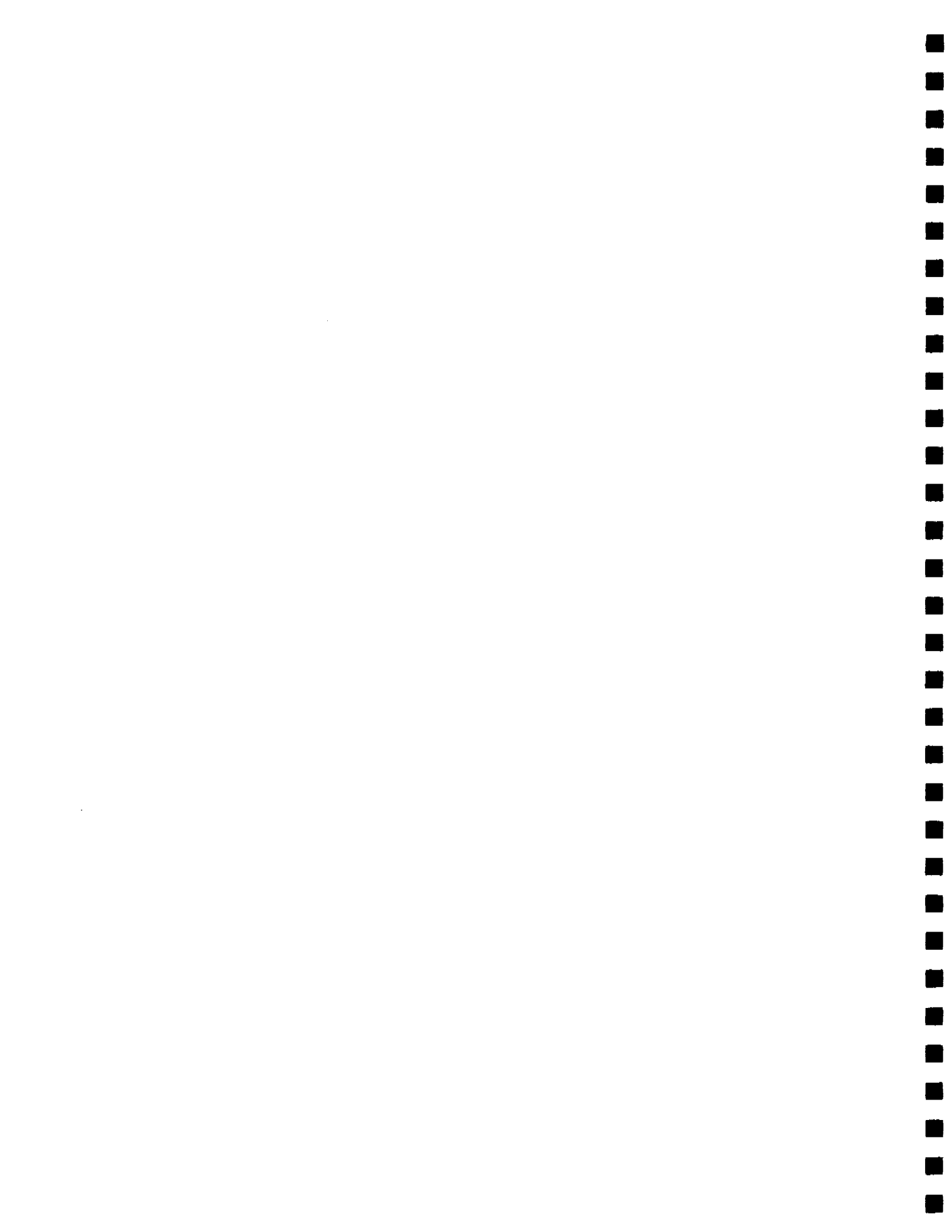
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 09-01 through 09-33 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 09-01, 09-02, 09-04, and 09-07 through 09-31 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 09-09, 09-25, and 09-32.

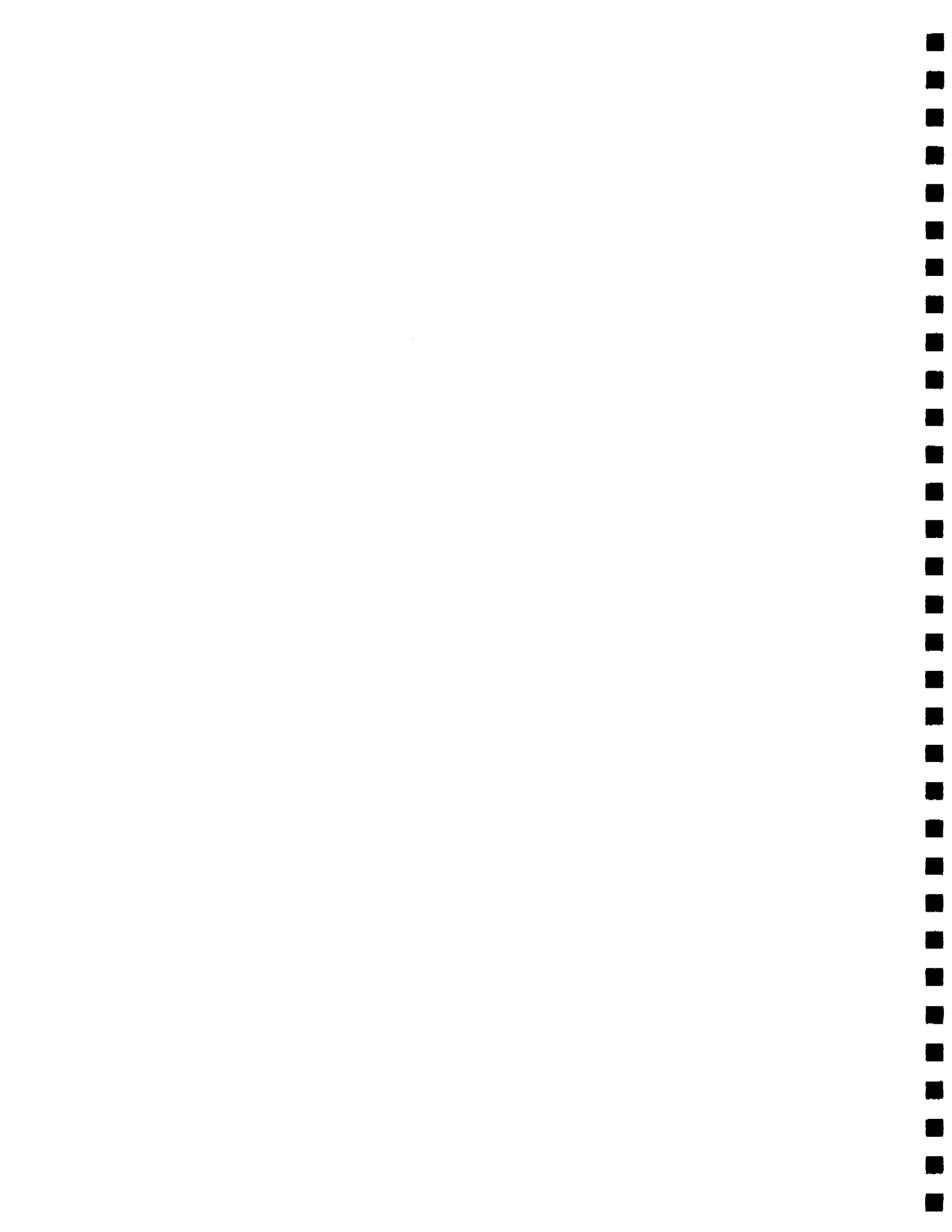
The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Tini & O'Connell LLP*

Certified Public Accountants  
Los Angeles, California

May 19, 2010







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City of Compton, California

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program, Internal Control  
Over Compliance in Accordance with OMB Circular A-133,  
and the Schedule of Expenditures of Federal Awards**

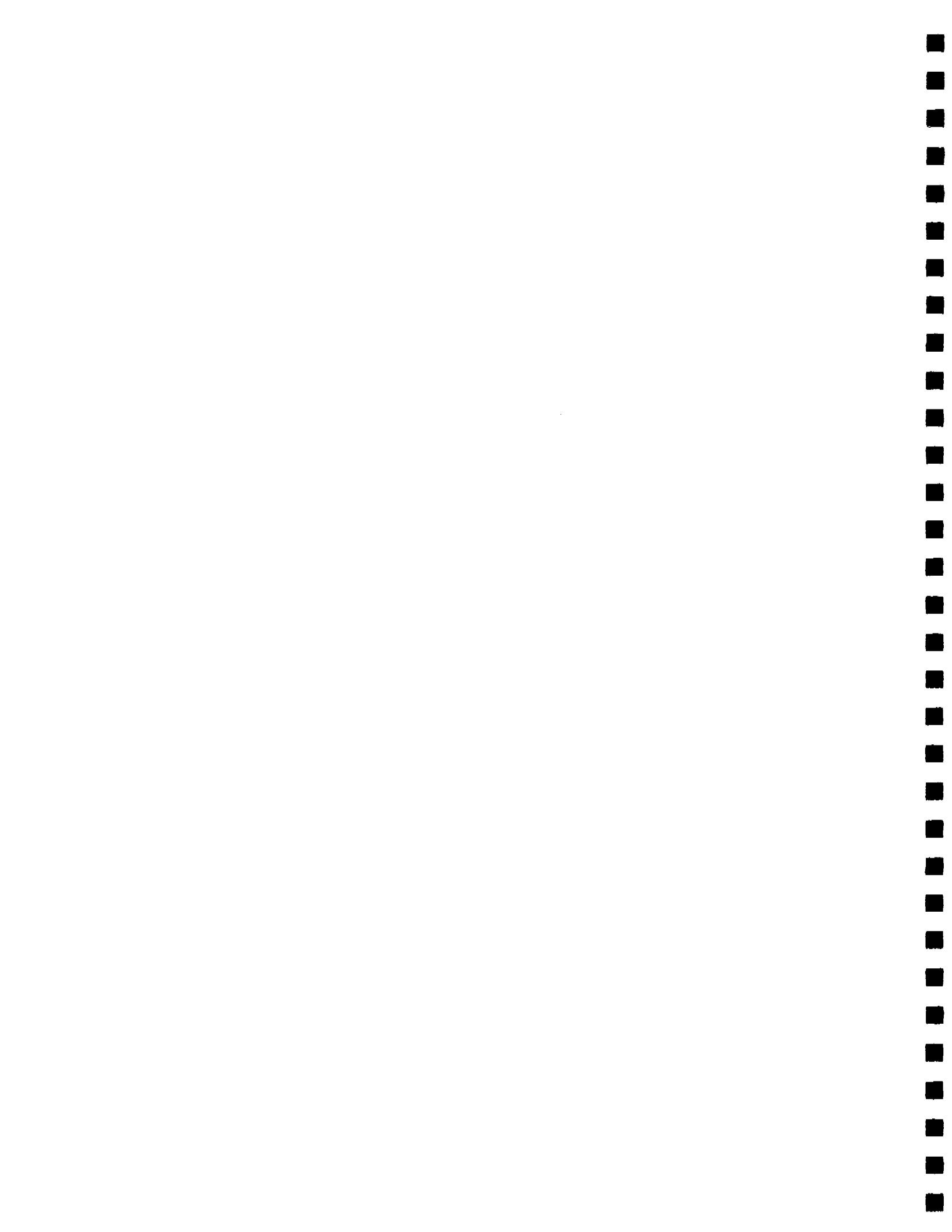
Compliance

We have audited the compliance of the City of Compton, California (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in findings 09-34, 09-35, 09-36, 09-37, 09-38, and 09-39 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding allowable costs/cost principles (finding 09-37), eligibility (finding 09-35), reporting (finding 09-34), procurement (finding 09-36), and that are applicable to the HOME Investment Partnerships Program, the City did not comply with requirements regarding reporting (finding 09-38) that is applicable to Section 8 Housing Choice Vouchers, and the City did not comply with OMB requirements for the preparation of the Schedule of Expenditures of Federal Awards (finding 09-39). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in



all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

#### Internal Control Over Compliance

The management of the City of Compton is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

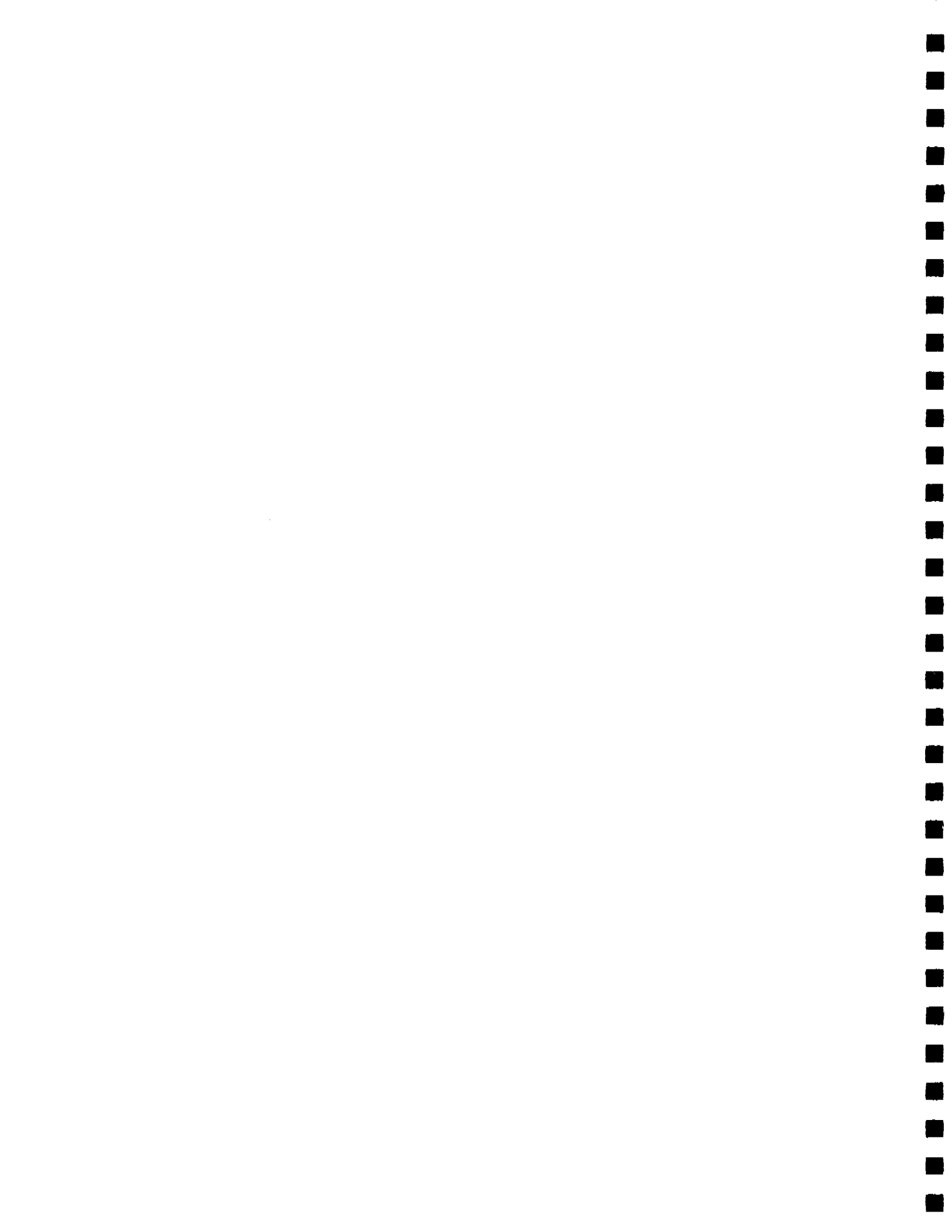
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09-34, 09-35, 09-36, 09-37, 09-38, and 09-39 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 09-34, 09-35, 09-36, 09-37, 09-38, and 09-39 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Compton as of and for the year ended June 30, 2009, and have issued our report thereon dated May 19, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

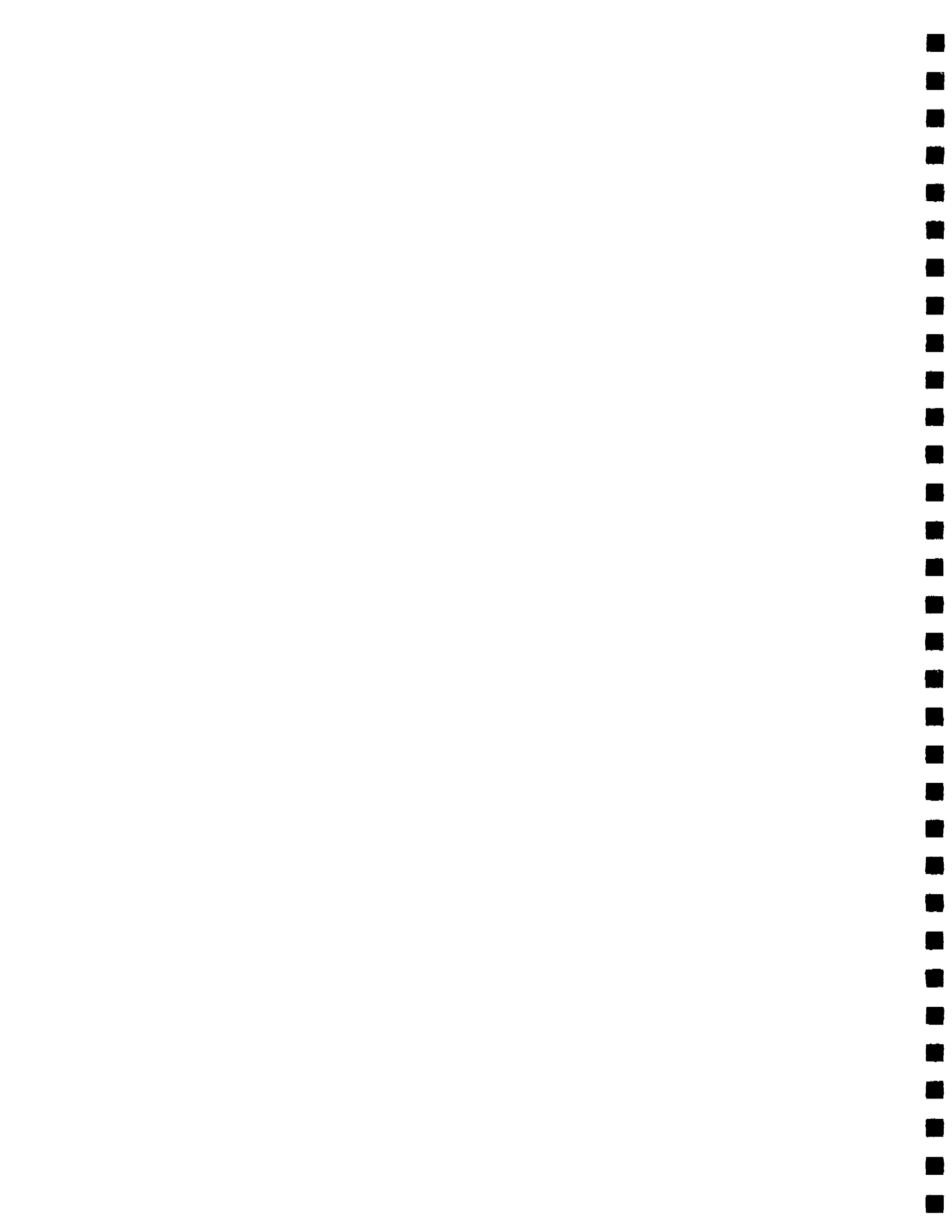


This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Jini & O'Connell LLP*

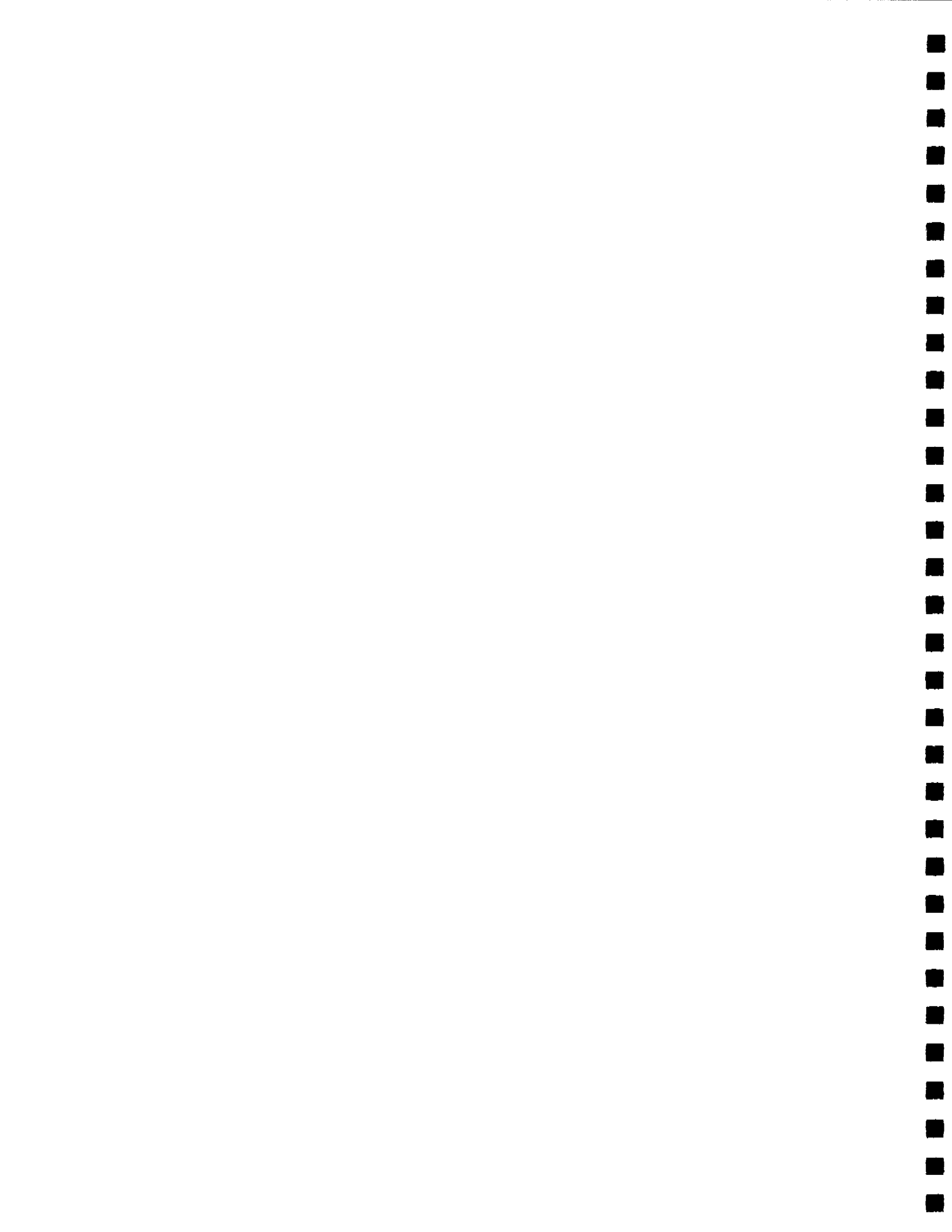
Certified Public Accountants  
Los Angeles, California

May 19, 2010



**CITY OF COMPTON**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2009**

| <b>Federal Grantor<br/>Program Name</b>                     | <b>Catalog of<br/>Federal Domestic<br/>Assistance Number</b> | <b>Pass-Through<br/>Grantor</b> | <b>Program<br/>Identification<br/>Number</b> | <b>Expenditures</b> |
|---|--|---------------------------------|--|---------------------|
| <b>U.S. Department of Housing and Urban Development</b>     |  |                                 |  |                     |
| Community Development Block Grants/Entitlement Grants       | 14.218   | Direct Program                  | B08MC060515                                  | \$ 1,863,306        |
| Emergency Shelter Grants Program                            | 14.231   | Direct Program                  | S08MC060515                                  | 107,124             |
| HOME Investment Partnerships Program                        | 14.239   | Direct Program                  | M08MC060506                                  | 1,343,214           |
| Section 8 Housing Choice Vouchers                           | 14.871   | Direct Program                  | CA081VO0047                                  | 7,338,125           |
| <b>Subtotal Department of Housing and Urban Development</b> |  |                                 |  | <b>10,651,769</b>   |
| <b>U.S. Department of Labor</b>                             |  |                                 |  |                     |
| WIA Adult Program   | 17.258   | L.A. County                     | RWGA080902                                   | 326,424             |
| WIA Youth Activities  | 17.259   | L.A. County                     | RWGY080902                                   | 310,962             |
| Summer Youth Program  | 17.259   | L.A. County                     | 20270  | 95,884              |
| WIA Dislocated Workers                                      | 17.260   | L.A. County                     | RWGD080902                                   | 236,619             |
| WIA Rapid Response  | 17.260   | L.A. County                     | RWGR080902                                   | 26,618              |
| Subtotal WIA Cluster  |  |                                 |  | 996,507             |
| <b>Subtotal Department of Labor</b>                         |  |                                 |  | <b>996,507</b>      |
| <b>U.S. Department of Health and Human Services</b>         |  |                                 |  |                     |
| Outpatient Drug Free Counseling                             | 93.959   | L.A. County                     | H-702375                                     | 25,287              |
| General Relief  | 93.959   | L.A. County                     | H-702394                                     | 3,489               |

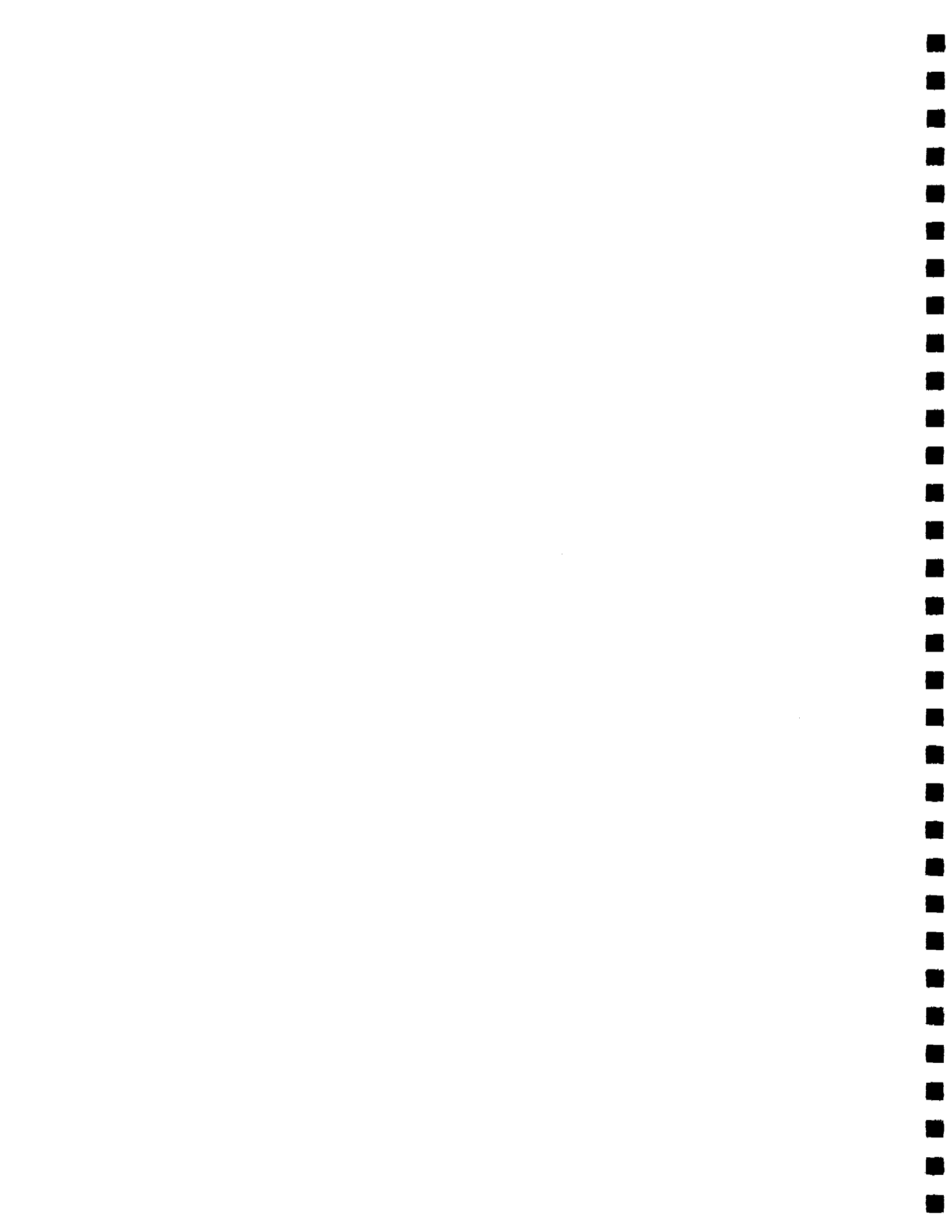




**CITY OF COMPTON**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2009**

| <b>Federal Grantor<br/>Program Name</b>   | <b>Catalog of<br/>Federal Domestic<br/>Assistance Number</b> | <b>Pass-Through<br/>Grantor</b> | <b>Program<br/>Identification<br/>Number</b> | <b>Expenditures</b>                |
|---|--|---------------------------------|--|------------------------------------|
| Outpatient Counseling-Prop 36   | 93.959   | L.A. County                     | PH-000107                                    | \$ 30,001                          |
| Subtotal CFDA# 93.959- Block Grants for Prevention and Treatment of Substance Abuse |  |                                 |  | <u>58,777</u>                      |
| <b>Subtotal Department of Health and Human Services</b>                             |  |                                 |  | <b>58,777</b>                      |
| <b>U.S. Department of Transportation</b>  |  |                                 |  |                                    |
| Traffic Management Operations Center  | 20.205   | CalTRANS                        | HP2IL-5078(012)                              | 268,833                            |
| Alondra Ave for 710FWY to Alameda   | 20.205   | CalTRANS                        | STPLER-5078(013)                             | 76,674                             |
| Citywide Resurfacing, Restoration, & Rehab  | 20.205   | CalTRANS                        | STPL-5078(015)                               | 89,974                             |
| Long Beach Blvd from Rosecrans to Alondra   | 20.205   | CalTRANS                        | STPLH-5078(019)                              | 243,247                            |
| Compton - Along Willow Brook Blue Line  | 20.205   | CalTRANS                        | RPSTPLE-5078(014)                            | <u>124,265</u>                     |
| Subtotal CFDA# 20.205- Highway Planning and Construction                            |  |                                 |  | 802,993                            |
| <b>Subtotal Department of Transportation</b>  |  |                                 |  | <u><b>802,993</b></u>              |
| <b>Total Expenditures of Federal Awards</b>   |  |                                 |  | <u><u><b>\$ 12,510,046</b></u></u> |

See Notes to the Schedule of Expenditures of Federal Awards.



**CITY OF COMPTON**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2009**

**(1) Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Compton, California and is presented on the modified accrual basis of accounting. Federal awards of component units of the City are also included in this Schedule.

The information in this Schedule is also presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Expenditures of federal award grant funds are made for the purposes specified by the grantor, and are subject to certain restrictions. Expenditures are also subject to further audit by the relevant federal agency. Subsequent to year end, the U.S Department of Housing and Urban Development (HUD) commenced an audit of the Housing Section 8 program for the years ended June 30, 2005 to June 30, 2007. As of yet, the amount of questioned / disallowed costs for which the City may be liable has not yet been determined.

**(2) Loan Programs with Continuing Compliance Requirements**

The City participates in the HOME Investment Partnerships Loan program (CFDA# 14.239) of the U.S. Department of Housing and Urban Development and the Economic Adjustment Assistance - Commercial Revolving Loan Fund program (RLF) (CFDA# 11.307) of the U.S. Department of Commerce, Economic Development Administration, which are subject to continuing compliance requirements. The balance of loans from previous years and current year loan activities, as required under OMB Circular A-133, are \$4,515,709 for the HOME program and \$383,625 for the RLF program.

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**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

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**Section I - Summary of Auditor's Results**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued on the financial statements of the City: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? Yes
- Significant deficiencies identified in internal control over financial reporting that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted? Yes

**FEDERAL AWARDS**

Internal control over major programs:

- Material weakness (es) identified? Yes
- Significant deficiencies that are not considered to be material weaknesses? None Noted

Type of auditor's report issued on compliance for major programs: Qualified for HOME Investment Partnerships Program and Section 8 Housing Choice Vouchers

Any audit findings which are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

Identification of major programs:

**Catalog of Federal Domestic  
 Assistance Number  
 (CFDA#)**

**Program Name**

|        |                                      |
|--------|--------------------------------------|
| 14.239 | HOME Investment Partnerships Program |
| 14.871 | Section 8 Housing Choice Vouchers    |

Dollar threshold used to distinguish between Type A and Type B programs: \$375,301

Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133? No

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

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**Section II – Financial Statement Findings**

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**Finding Related to Finance and Treasurer:**

***Finding 09-01 - Lack of Budget Control***

**Criteria:**

Per GAO Internal Control Standards issued in November 1999, "... all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination." Furthermore, per City Resolution 21,925, "The City Manager may transfer budgeted amounts from one object to another object if they are within the same fund group, by no more than \$5,000 per object. A budgetary transfer of more than \$5,000 per object may only be authorized by a resolution of City Council."

**Condition:**

The budget is one of the key controls used by the City to ensure expenditures are properly authorized. The City requires budget modification forms to be submitted for budget changes that are less than \$5,000 or between budget line items. This budget modification form is to be approved by Department Head, City Controller, and City Manager. For budget increases in excess of \$5,000, a budget amendment is required. Budget amendments are to be approved by City Council. Approved budget changes are recorded by the Controller in IFAS by a Senior Accountant upon the City Controller's review. During our review of budget modifications, we noted there was no evidence of the required approvals for budget modifications for amounts totaling \$9,733,438. We also noted approval of budget modifications that resulted in significant budgetary deficits in the final budget.

**Effect:**

Without proper budget control, the City has increased risks of misuse or unauthorized use of funds.

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure all budget changes are properly authorized.

**Management Response:**

The City already has policies and procedures in the City's Financial Policies and Procedures Manual regarding approval of budget modification by the City Council.

The budget modifications will be listed and presented to the City Council for ratification / approval on a quarterly basis.

***Finding 09-02 – Internal Service Fund Deficits***

**Condition:**

Governments often use internal service funds to centralize certain services and then allocate the costs of those services within the government. U.S. generally accepted accounting principles (GAAP) permit the use of internal service funds to report any activity that provides goods or services to the government on a cost-reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost (including cost of capital assets) of providing goods or services for the purpose of fully recovering that cost through fees or charges. Accumulating significant deficits or excess net assets are indicative of the

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

internal service activity not being operated on a cost-reimbursement basis. Under such circumstances, it may no longer be appropriate to report the activity in an internal service fund under GAAP.

In prior years, the City's user fees for self insurance and equipment rental were not enough to recover the full cost of services. Due to the deficiency in charges for services, the internal service funds have essentially borrowed monies from the General Fund in order to maintain operations. The overall net assets deficit of internal service funds with deficit balances and the overall borrowings from the General Fund are \$25,498,476 and \$20,847,779, respectively.

Recommendation:

We recommend that the City develop a rebalancing plan to reduce deficits in internal service funds. If it is determined that the plan is not feasible and that the City does not intend to recover the full cost of providing goods or services within a reasonable period of time, then the use of internal service funds is no longer appropriate under GAAP and should not be used for financial reporting purposes.

Management Response:

The City commenced in the 2007/2008 fiscal year to reduce the deficit in the Internal Service Funds by ensuring that the yearly Internal Service Funds' operating costs are fully reimbursed and by transferring funds from General Fund to the Internal Service Funds to cut down the accumulated deficit. The deficit in the Equipment Rental fund was cleared after the year-end, while for Self Insurance, the deficit will be completely eliminated within the next five years.

***Finding 09-03 - Notes Receivable - Lack of Supporting Documentation***

Criteria:

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "... all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation ... may be in paper or electronic form."

Condition:

The City has recorded notes receivable totaling \$80,855, for which there is no supporting documentation. However, the City has established an allowance for the entire balance at June 30, 2009.

Effect:

The lack of supporting documentation can impact the collectability of notes receivable.

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure all transactions and other significant events are clearly documented and readily available for examination.

Management Response:

The City is developing a policy and system to document, monitor and record all loans receivables due to the City.

The policy was implemented in January 2010. The responsible individuals are Dr. Kofi Sefa-Boakye, Director of Redevelopment and Michael Antwine, Deputy Director of Redevelopment.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 09-04 - No Automatic Interface***

**Criteria:**

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "Financial information is needed for both external and internal uses. It is required to develop financial statements for periodic external reporting, and on a day-to-day basis, to make operating decisions, monitor performance, and allocate resources. Pertinent information should be identified, captured, distributed in a form and time frame that permits people to perform their duties efficiently."

**Condition:**

The City utilizes ADP for payroll system, IFAS for general ledger system, Springbrook for cash receipt and utility billing system, and Valley Oak System (VOS) for workers' compensation and general liability claims. There is no automatic interface between these systems to IFAS, general ledger system. All interfaces were done manually and/or through journal entries. No automatic interface resulted in discrepancies noted in several financial statement areas, such as cash, receivables, prepayments, revenues, and expenditures. In addition, we also noted that sometimes there were difficulties in transferring cash receipt data from Springbrook to IFAS, which delayed information transmission to the general ledger.

**Effect:**

No automatic interface between critical information systems results in failure to deliver pertinent financial information accurately and timely.

**Recommendation:**

We recommend the City develop and implement automatic interfaces among critical information systems. We also recommend the City utilize an enterprise management system, which serves its financial reporting and operation needs.

**Management Response:**

The City is currently reviewing some ERP system for a possible replacement of the existing systems. Some of the factors being considered include fund availability and possibility of custom programs to link the existing disparate systems. The primary staff member responsible for this procedure is the Deputy City Controller (Stephen Ajobiewe), with oversight from the City Controller (Willie Norfleet). However, we noted the City has implemented mitigating controls. Currently, the City performs payroll reconciliations to ensure payroll expenses reported per ADP agreed to the general ledger.

***Finding 09-05 - No Cost Allocation Plan***

**Criteria:**

Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards and other cost centers are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards and other cost objectives.



**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Condition:

During our audit, we noted the City did not have a cost allocation plan, which is used as documentation to identify, accumulate, and allocate or develop billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The City either allocated these costs based on budget or did not allocate these costs to Federal award and other cost objectives.

Effect:

Costs may not be allocable to Federal award and other cost objectives in accordance with relative benefits received.

Recommendation:

We recommend the City develop, document, and implement a cost allocation plan to ensure costs are allocable to Federal awards and other cost objectives in accordance with relative benefits received.

Management Response:

The City has a cost allocation plan which will be implemented in the fiscal year 2009/10's budget process. The primary staff member responsible for this procedure is the Deputy City Controller (Stephen Ajobiewe), with oversight from the City Controller (Willie Norfleet).

***Finding 09-06 - Treasurer's Investment Report***

During our testing of cash and investments, we noted the following conditions:

- The Investment Reports for the period ended June 30, 2009 did not include investments held by third parties (fiscal agents) as required by Government Code Section 53646 (b) (1).
- The Investment Report for the period ended June 30, 2009 did not include investment ratings as required by Government Code Section 53646 (b) (1).

Recommendation:

We recommend that:

- The City establish and follow a policy to comply with all Government Code requirements relating to cash and investments.
- Reconciled cash balances be reported in the Investment Report.

Management Response:

The City Treasurer will review the referenced Sections of the California Government Code to determine their applicability. If they are applicable, the Treasurer will comply with the requirements.

***Finding 09-07 - Inadequate Segregation of Duties in Preparing Bank Reconciliations and Check Approvals***

Criteria:

Per GAO internal control standards issued in November 1999, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related asset.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Condition:**

The accountant signing the checks is also the same person performing the bank reconciliations for general liability and workers' compensation accounts since May 2009.

**Effect:**

A lack of segregation of duties will increase the chances of abuse and fraud in general liability and workers' compensation payments and minimize the chances of discovering this issue.

**Recommendation:**

We recommend the City enforce policies and procedures to ensure duties between signing the checks and performing the bank reconciliations are adequately segregated.

**Management Response:**

The Accountant was temporarily assigned to perform the bank reconciliation statement because the designated Accountant was on vacation. However, the City has thoroughly reviewed the reconciliation statements prepared before the year end. A different Accountant reperformed the reconciliation statements from July 2009 to date.

Further, the bank reconciliation duty has permanently been re-assigned to an Accountant who is not a check signer and who is independent of the expenditure process and has no custody of physical checks.

***Finding 09-08 - Cash Management***

**Condition:**

The City manages cash by total cash balance instead of by fund. The City also pays most expenses from their pooled cash based on a budget appropriation without taking into consideration the availability of cash in a particular fund. This pooled cash consists of cash from various funds including restricted funds. As a result, the City advances cash to funds with a deficit by using cash from other funds including some restricted funds to cover shortages in cash. These restricted funds' cash should not be utilized for other than the specified purposes.

**Recommendation:**

We recommend that the City develop a plan to manage cash balance by fund instead of by total to avoid borrowing from the restricted funds in their pooled cash. We also recommend the City adjust the budget, if necessary, during the year to ensure budgeted expenditures are in balance with actual cash received.

**Management Response:**

The City Management has indicated that starting from the upcoming budget year, the City's Departments will not be allowed to have expenditures over their grant revenues (restricted funds) and the General Fund appropriations. Departments will henceforth be conservative in projecting expected funds / cash from grants. Grant expenditures will be tied to actual funds received from the funding grants and no budget overruns will be allowed in the General Fund. Also, the City Management has emphasized the need for expending Departments to seek / obtain reimbursement promptly for grant expenditures. These remedial actions will improve management of cash balances and ensure that cash balances of some Funds are not used up by other Funds, Grants or Projects.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 09-09 – Non-compliance with Debt Agreements***

**Criteria:**

The City must meet the requirements set forth by each bond covenant. Pursuant to the 2000 Solid Waste Management Facilities Revenue Bond, the City has covenanted to establish, fix, prescribe and collect Revenues on an annual basis so that Net Revenues are equal to at least 1.25 times annual debt service due in such year on the Bonds and any outstanding parity bonds.

**Condition:**

We noted that the City only has Net Revenues of \$773,534 as defined by the agreement. The required Net Revenues based on the debt covenant is \$979,600.

**Effect:**

The City is not in compliance with its debt agreement for the 2000 Solid Waste Management Facilities Revenue Bond.

**Recommendation:**

We recommend the City develop, document and implement policies and procedures to ensure compliance with the debt covenant as specified in the debt agreement requirements.

**Management Response:**

The City will ensure compliance with the net revenue base covenant by curtailing the deductible operating expenditures thereby increasing the net revenue amount. The cut in operating expenditures will be implemented in the next fiscal year's budget.

**Auditor's Observation:**

While it's always good to reduce operating expenditures, all costs should be charged to the Fund. Further, the Bond Indenture specifies the City shall at all times prescribe, revise and collect rates, fees and charges, so that Net Revenues during such twelve month period are sufficient for payment of an amount equal to 1.25 times the Maximum Annual Debt Service.

**Findings Related to Information Technology:**

***Finding 09-10 - Outdated IT Job Descriptions***

**Condition:**

Updated position descriptions are a critical element of an effective management and serves to set clear expectations about job performance for employees. Generally, position descriptions should be updated every three to five years. Our review found that the job descriptions for the Information and Technology Systems Department (IT) were outdated; one of the IT position description dating back to 1995. Outdated job descriptions could create misunderstanding of job expectations.

Currently, IT management has reported that City job descriptions have been drafted and are under review by the Human Resources Department. The Human Resources Department has reported that there are currently ongoing discussions with the City bargaining unit about them and after completion of discussions and agreement with the City bargaining unit, City job descriptions must then be approved by City Council. There is no expected date at which the job descriptions will be approved.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Recommendation:**

The City Information Systems Director, working in conjunction with City Human Resources (HR) Department, should continue to formalize the adoption of updated job descriptions and determine a timeframe for their completion.

**Management Response:**

IT management is in agreement with the above recommendation. The IT Job Descriptions are currently under review with the HR Department and City Manager. Once adopted, they will be implemented.

***Finding 09-11 - An IT Strategic Plan Has Not Been Developed***

**Condition:**

IT industry standards recommend that sound IT organizations should have an IT strategic plan in place that addresses the goals and objectives of the Department and how those goals and objectives will be met and measured. The City Information Systems Director had prepared an internal 2009 IT Strategic Plan, but the Plan did not include input from City department heads or City executive management. In developing the plan, the Information Systems Director considered the IT needs of the City and its respective departments. The Information Systems Director reported that cuts in the budget have adversely affected IT related planning. Further, the City had not yet formed an IT Steering Committee.

**Recommendation:**

The City should continue with the development and implementation of the draft IT Strategic Plan and also form IT Steering Committee that will provide oversight to the Plan. In conjunction with this development, the City IT Department should also institute plans and procedures to ensure that the plan is periodically reviewed and updated and the status of the project is communicated to the City Manager.

**Management Response:**

IT management is in agreement with the above recommendation and will have an IT Steering Committee. All City Directors have been a part of the City's new ERP application project and have been a part of the team that sets the requirements needed for all programming related to the City. IT management will include Directors as necessary, when changes affect their department. The Strategic Plan has been developed and will be given consideration by City Management.

***Finding 09-12 - No Formal IT Risk Management Program Has Been Implemented***

**Condition:**

IT industry standards recommend the implementation of IT risk assessments, which serve as a basic internal control to identify potential threats and other vulnerabilities of the City's information network. Our review found that the City has not had an independent IT risk assessment performed of its IT infrastructure. Without a risk assessment, the City has no formal means to identify high risks areas for intrusion, fraud, and other malicious or internal threats that would need remediation.

The City Information Systems Director reported that an IT risk assessment, to be performed by an external firm, has been scheduled for May 2010.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Recommendation:**

The City IT Department should conduct an IT risk assessment to ensure that IT risks are properly identified and addressed. After implementing any recommended corrective actions, the City should conduct periodic evaluations to assess the effectiveness of the risk mitigation measures.

**Management Response:**

IT management is in agreement with above recommendation. The Information Systems Department has already commenced the bidding process for the risk assessment test. Once awarded and the purchased order is processed, the assessment will be completed within 90 days.

***Finding 09-13 - The City Lacks Proper Segregation of Duty Controls within the Financial Application***

**Condition:**

IT industry standards require access controls to financial management systems to be strictly monitored and granted to selected employees. We noted that the City does not formally review access rights to ensure that user accounts are up to date, are appropriate for their job duties, and a proper segregation of duties has been established and maintained. As a result, we could not determine whether five persons in the City Controller's Office (Controller) should have full access within the IFAS financial management system. Additionally, other persons in the Controller's Office may have access beyond what is required for their current duties and responsibilities. We also noted that the Human Resources (HR) and Payroll personnel inappropriately have access to both human resources data and payroll data of ADP payroll system. Inadequate segregation of duties could lead to misstatements of the City's financial information due to abuse, error, or fraud.

**Recommendation:**

The City's IT Manager, working with the application and data owners, should develop and implement procedures to ensure that the authorization roles within the financial and HR applications are periodically reviewed by the application owners to ensure they are up to date and enforce a proper segregation of duties.

**Management Response:**

IT management has been working with the owners of the software and has made recommendations but is waiting for final approval from the Directors. This request is over 90 days old.

***Finding 09-14 - Network Password Configuration Requirements are Inadequate***

**Condition:**

Network password configuration controls serve as a critical defense against unauthorized access for internal and external threats. Although there has been no formal approval by the City Manager, password configuration requirements are in effect for the City's network. We determined the current password requirements for accessing the City's network are configured for:

- 8 character minimum password length
- 90 day expiration period
- Minimum password age of 3 days
- 6 password history remembered
- Password must meet complexity requirements
- Account lockout after five invalid logon attempts.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

The password requirement settings within the network environment meet all the best practices requirements except for the number of password histories remembered. Best practices recommend at least 12, while current network settings are for six.

The City did not provide information on password configuration settings for access to its financial application. Without this information, we are unable to provide verification of appropriate password configuration settings for the City's financial system.

**Recommendation:**

The City's Information Systems Director, working in conjunction with the City Manager's office or IT Steering Committee, should develop and implement password configuration requirements for accessing the City financial applications. These electronic policies should be consistent with the paper policies previously identified. Per best practices, the financial applications will be configured to require user account passwords to adhere to the following standards:

- Length of between 7 and 14 characters
- Expiration period of between 30 and 90 days.
- A minimum password age of 1 day before a password can be changed.
- A password history of at least 12, meaning a password must be changed at least 12 times before it can be reused.
- An account lockout threshold of between 3 and 5, meaning 3 to 5 failed logons will lock a user's account and require the IT department to re-set the password for the user.

As for the City's network, the City's IT Department manager should strengthen the password requirement settings for password history remembered from 6 to at least 12.

**Management Response:**

IT management is in agreement with the above recommendation. The IT Department has made formal policy that is pending in the HR Department and City Attorney's office. Once approved, the IT Department will make the necessary changes except for the financial software which is incompatible with the requested recommendation. Once the new ERP application is installed, the recommended changes can be administered.

***Finding 09-15 - The City Lacks a Formal Policy and Procedure for Granting Network Administrator Access***

**Condition:**

The City does not have formal policies and procedures defining which positions or duties would require administrator access to the City network environment: Enterprise Schema and Domain Administrative groups within MS Active Directory. This requirement should ensure that only a minimum number of personnel are granted network administrator authorizations within the network environment and that they are properly approved for access. Without a formal review of this type of administrator access within the network, an undue number of personnel may be granted this high level of authority within the network, increasing the risk of unauthorized activities or changes being made to the network.

The City Information Systems Director reported that formal policies and procedures defining which positions or duties would require administrator access to the City network environment are currently under review with the Human Resources Department and the bargaining units.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Recommendation:**

The City Information Systems Director and City Human Resources department should continue to work to adopt and implement a formal policy defining which positions or duties should be granted access to the network environment at the Administrator level. This guideline or policy should ensure that only a minimal amount of personnel are allowed access and that the access is critical to the performance of their duties and properly approved by the Information Systems Director.

**Management Response:**

IT management is in agreement with the above recommendation. Once the draft policy that has been submitted is approved by the City Attorney's office, it will become a part of the City's Standard Operating Procedure.

***Finding 09-16 - The City Lacks Formal Policy and Procedures for User Access Termination***

**Condition:**

The City does not currently have formally adopted policies and procedures to ensure that terminated employees, contractors, temps, or interns are removed from network, application and database access as soon as the departure is recognized. Without assurance that terminated personnel are removed from network, application and database access, the City is at increased risk of malicious activity occurring within the network. The Information Systems Director reported that the Human Resources Department has drafted policies and procedures and they are under review by the City's bargaining unit. After completion of discussions and agreement with the City bargaining unit, the policies and procedures must be approved by City Council.

**Recommendation:**

The City Information Systems Director, working in conjunction with City Human Resources Department, should work to adopt and implement policies and procedures as soon as possible to ensure that departing employees, temps, interns and contractors are removed from network, application and database access as soon the departure is recognized.

**Management Response:**

IT management is in agreement with the above recommendation. Once the draft policy that has been submitted is approved by the City Attorney's office, it will become a part of the City's Standard Operating Procedure.

***Finding 09-17 - Formal Data and Application Owners have not been Assigned***

**Condition:**

Formal data and application owners for the financial applications and information managed within the applications have not been established. It is the formal data and application owners who should be the final authorization for granting personnel user accounts to the applications and reviewing user authorization roles. Without this formal assignment of responsibility, it cannot be assured that the proper authorizing authority is providing the needed oversight over who is granted access to the applications and data.

**Recommendation:**

The City Manager, working in conjunction with the Information Systems Director, should establish formal data and application owners for all of the financial applications used by the City. User account setups should ultimately be approved by the formal data and application owner (or a formal designee) as well as the user's authorization roles within the application.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Management Response:**

IT management is in agreement and has implemented the recommendation above.

***Finding 09-18 - There is no Audit Trail for New User Account Authorizations and Creation***

**Condition:**

The City has not formally adopted policies and procedures that would ensure all users that have been granted access to the network, applications and databases are properly approved. The City Information Systems Director reported that some policies and procedures have been drafted and provided to the Human Resources Department which is in negotiations with City Bargaining Units.

**Recommendation:**

The City Information Systems Director, working in conjunction with the City Human Resources Department, should adopt and implement policy and procedures to ensure that all users granted access to the network, applications and databases are properly approved and that the authorization audit trail is maintained.

**Management Response:**

IT management is in agreement with the above recommendation. Once the draft policy that has been submitted is approved by the City Attorney's office, it will become a part of the City's Standard Operating Procedure.

***Finding 09-19 - The City Lacks a Formal Computer Usage Policy***

**Condition:**

While policies and procedures regarding the City's Computer Usage Policy have been drafted and provided to the Human Resources Department which is in negotiations with City Bargaining Units, they are still being reviewed by the City Bargaining Units and there is no expected date at which the policies and procedures will be approved.

The draft "City of Compton Preliminary Security and Procedures" provided to us does not address the following IT-related issues identified in our prior year 2008 audit:

- Physical security of IT assets. Personnel should be made aware of City expectations that computer assets assigned an individual will be maintained and secured appropriately (i.e. not left unattended or unsecured, not left in a car, etc)
- Ownership of information, data and software on City IT assets. Users should be made aware that all software and data on City IT assets are the sole property of the City.
- City Access to Computer Information and Hardware: Personnel should be made aware that the City may inspect or monitor any City owned, leased, or controlled equipment including inspection of email and internet usage.

**Recommendation:**

The City Information Systems Director should update the current draft of the City Computer Usage Policy to include the additional IT-related areas noted above and work with the City Manager to have it adopted as soon as possible.



**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Management Response:**

IT management is in agreement with the above recommendation. Once the draft policy that has been submitted is approved by the City Attorney's office, it will become a part of the City's Standard Operating Procedure.

***Finding 09-20 - No Logging for Database Changes is Being Accomplished***

**Condition:**

Proper system controls allow the ability to track and identify when changes are made to financial system tables or other configurations. Currently, the City does not have controls in place to track and monitor coding and configuration changes to the HR/Payroll and Financial systems. Without the controls in place, the City is at risk of undetectable fraud or abuse.

**Recommendation:**

The Information Systems Director, working in conjunction with the City Manager, should investigate the feasibility of implementing logging of changes being made to the database. These logs should be periodically reviewed for malicious or unauthorized activity. Alternatively, the City could consider other types of database monitoring systems or software.

**Management Response:**

IT management is in agreement with the above recommendation. The IT Department has made recommendations to address this issue but lacks the authority from the governing Departments to implement changes. Recommendations have been sent to the City Manager for approval.

***Finding 09-21 - The IT Department does not have Formal Policy and Procedure for Monitoring or Reviewing Security Logs***

**Condition:**

The City does not currently have formally adopted policies and procedures that would help ensure that unauthorized access control systems are properly monitored within the City's IT network. The City Information Systems Director has reported that policies and procedures have been drafted and provided to the Human Resources Department which is in negotiations with City Bargaining Units. There is no expected date at which the policies and procedures will be approved.

In practice there is no regular and structured review of the security logs currently being conducted.

**Recommendation:**

The City Information Systems Director should immediately adopt and implement policies and procedures to ensure that security logs are reviewed at frequent intervals for timely identification of unauthorized access attempts and corrective actions are immediately taken to address the risk.

**Management Response:**

IT management is in agreement with the above recommendation. Once the draft policy that has been submitted is approved by the City Attorney's office, it will become a part of the City's Standard Operating Procedure.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 09-22 - Segregation of Duties on Payroll Jobs is Lacking***

**Condition:**

Policies and procedures that would help ensure a proper segregation of duties on payroll jobs, have not been formally adopted. The City Information Systems Director reported that policies and procedures have been drafted and provided to the Human Resources Department which is in negotiations with City Bargaining Units. The content of policies and procedures is subject to review by the Bargaining Units, and possible change. There is no expected date at which the policies and procedures will be approved.

We were provided with access request forms for the payroll function which show roles and responsibilities for 3 employees. However, the forms were not signed by a designated data or application owner.

We were provided with evidence of current levels of access to the City's financial system; however, they were not developed pursuant to formal policies and procedures nor through discussion with the Controller's Office.

**Recommendation:**

The City should adopt and implement policies and procedures to ensure a proper segregation of duties on payroll jobs. Job functions should be defined in such a way as to require manager approval over all transactions and inputs from clerical staff. No single person should have the ability to conduct all steps in the payroll transaction process.

**Management Response:**

IT management is in agreement with the above recommendation. Once the draft policy that has been submitted is approved by the City Attorney's office, it will become a part of the City's Standard Operating Procedure.

**Findings Related to General City:**

***Finding 09-23 - Lack of Oversight in Financial Statements Preparation***

**Criteria:**

Statement of Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation of the financial statements, including the notes to the financial statements in conformity with U.S. generally accepted accounting principles. The City's external auditor cannot be part of the system of internal control. The standards also define a lack of oversight and understanding of the financial reporting process as a significant deficiency, which includes the selection and application of accounting principles that are in conformity with generally accepted accounting principles.

**Condition:**

The City does not have adequate internal controls to ensure accurate and complete financial statements. During our review of the City's prepared financial statements, we noted several accruals and recognition of long-term receivables and payables which lacked adequate support. We also noted the City did not have an audit committee or its equivalent, who should have oversight responsibility for the financial statements.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Effect:

Inadequate oversight over financial statements preparation results in a material weakness over financial reporting process.

Recommendation:

We recommend the City develop, document, and implement internal control policies and procedures over financial statements preparation to ensure accurate and complete financial statements. We also recommend the City establish an audit committee or its equivalent to provide oversight over audit related matters including the financial statements and the system of internal controls over financial reporting.

Management Response:

Although the City does not have an Audit Committee, the oversight controls over financial statements preparation was provided by the City Controller. The Controller's Office will improve controls regarding validation of data obtained from other City departments and also strengthen controls over financial statement preparation.

***Finding 09-24- Non-compliance with the City's Procurement Policies and Procedures***

Criteria:

According to the City Council Resolution No. 22,271 adopted on April 10, 2007, a purchase order in an amount greater than \$25,000 requires adoption of City Council Resolution prior to being executed; in addition, the following purchase order procedures are required:

1. Purchase Orders for the same vendor, for the acquisition of related goods/services, and occurring in the same fiscal year shall be treated as one combined Purchase Order for purpose of determining if the \$25,000 threshold is met.
2. A new addition to an existing Purchase Order shall be combined with the original Purchase Order and any previous additions to the Purchase Order for purpose of determining if the \$25,000 threshold is met.
3. Purchase Orders will not be split in order to avoid the \$25,000 threshold, including splits near the cutoff between fiscal years.

Condition:

Of sixty vendors with payments in excess of \$25,000 selected for testing, four did not have the proper approval from the City Council.

Effect:

The City is not in compliance with its own procurement policies and procedures. The situation above could also lead to creation of and payment to fraudulent vendors.

Recommendation:

We recommend the City enforce procurement policies and procedures to ensure all payments in excess of \$25,000 are properly authorized by the Council. We also recommend the City implement a centralized purchasing system to ensure multiple payments to the same vendor without Council Resolutions or warrants do not exceed \$25,000 limit.

Management Response:

The City will strengthen monitoring controls to ensure that the \$25,000 rule is strictly adhered to.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 09-25 – Non-compliance with Conflict of Interest Requirement***

**Criteria:**

According to California Code of Regulations Title 2 §18700 – 18753 and Government Code §87207, public disclosure statements should require disclosure of financial interests in real property, investments, and other business income sources or positions. In addition, public disclosure statements should be filed annually. The submission deadline is April 1 the following year.

**Condition:**

In accordance with the City Council Resolution No. 12,121, there are 133 officials required to submit annual public disclosure statements (Form 700) for the period January 1 to December 31, 2008. Of 133 required officials tested, we noted 55 officials submitted Form 700 after the deadline and 34 officials did not submit Form 700.

**Effect:**

The City was not in compliance with California Code of Regulations Title 2 §18700 – 18753 and Government Code §87207.

**Recommendation:**

The City should develop, document, and implement policies and procedures to ensure all officials submit annual public disclosure statements timely.

**Management Response:**

The designated filing officer of the City Clerk's Office will continue to notify all filers of their filing obligation. All non-compliance issues will be referred to the Office of the City Attorney.

The City Attorney's Office will increase its efforts to ensure that timely compliance is achieved among its officials that are required to complete Form 700. Significant improvement should be obtained by the next fiscal year.

***Finding 09-26- Lack of Support for Interfund Charges***

**Criteria:**

Standard accounting practices and 2 CFR Part 225 *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87) Attachment A (3) (a), 'A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.'

**Condition:**

We noted the City records inter-fund revenue related to charges for services and inter-fund expense related to environmental, human and street maintenance services, which are approved in the City's annual operating budget. However, there is no documentation or allocation basis for the amounts being budgeted.

**Effect:**

The City is not in compliance with standard accounting practices and cost principles for State, Local, and Indian Tribal Governments.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Recommendation:**

We recommend the City develop and implement written policies and procedures that identify direct charges.

**Management Response:**

The City has commenced implementation of a Cost Allocation Plan to ensure that inter-fund charges (which arose from apportionment of shared indirect costs) are properly documented and consistently utilized.

**Findings Related to Risk Management:**

***Finding 09-27- Lack of Policy and Procedure in Estimating and Reporting Work Injury Claims***

**Criteria:**

Accounting standards require estimated liabilities to be reasonable, objective, and verifiable. An example of the documentation to support the above criteria is as mentioned in Title 8 California Code of Regulations §15300 (b) regarding estimating and reporting work injury claims, the administrator shall set a realistic estimate of future liability for each indemnity claim listed on the self insurer's annual report based on computations which reflect the probable total future cost of compensation and medical benefits due or that can reasonably expected to be due over the life of the claim. Each estimate listed on the self insurer's annual report shall be based on information in possession of the administrator at the ending date of the period of time covered by the annual report. Estimated future liabilities listed on the annual report must represent the probable total future cost of compensation for the injury or disease based on information documented as in possession of the administrator at the ending date of the period of time covered by the annual report. In addition, Title 8 California Code of Regulations §15300 (g) states, "The administrator shall adjust the estimate immediately upon receipt of medical reports, orders of the Appeals Board, or other relevant information that affects the valuation of the claim. Each estimate shall be reviewed no less than annually. Estimates set by a prior administrator shall be reviewed by the current administrator before filing the Self Insurer's Annual Report."

**Condition:**

Upon review of the City's process for estimating future liability for each work injury claim, we noted the City's lack of documentation to support computation or estimation of future liability for each work injury claim received. There is also lack of documentation to support adjustments made for the estimate of future liability. Evaluation of the reasonableness of the estimated future liabilities of the City's claims could not be reached as a result of the lack of detail documentation. Subsequently, the City obtained additional documentation in support of claim liabilities and adjusted the amounts accordingly.

**Effect:**

Based upon original audit procedures, the City was not in compliance with Title 8 California Code of Regulations §15300 (b). But, upon subsequent work performed, the City adjusted the claim liabilities amounts accordingly and currently is in compliance with Title 8 California Code of Regulations.

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures in setting estimates of future liability in accordance with Title 8 California Code of Regulations §15300 (b) as follows:

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

- Each estimate of future liability shall separately reflect an indemnity component and a medical component. The indemnity component shall include the estimated future cost of all temporary disability, permanent disability, death benefits including burial costs, and vocational rehabilitation including vendor costs. The medical component shall include the estimated future cost of all medical treatment, including costs of medical cost containment programs if those costs are allocated to the particular claim, and the estimated future cost of medical evaluations. Estimates of future liability shall include any increases in compensation in either component reasonably expected to be payable pursuant to Labor Code Sections 132a, 4553, and/or 5814.
- In estimating future permanent disability costs, where there are conflicting permanent disability ratings, the estimate shall be based on the higher rating unless there is sufficient evidence in the claim file to support a lower estimate.
- In estimating future medical costs where the injured worker's injury has not reached maximum medical improvement or permanent and stationary status, the estimate shall be based on projected costs for the total anticipated period of treatment throughout the life of the claim.
- In estimating future medical costs where the injured worker's injury has reached maximum medical improvement or permanent and stationary status, the estimate shall be based on average annual costs over the past three years since the injury reached maximum medical improvement or permanent and stationary status, or a lesser period if three years have not passed since the injury reached maximum medical improvement or permanent and stationary status, projected over the life expectancy of the injured worker. Estimates shall include any additional costs such as medical procedures or surgeries that can reasonably be expected over the life of the claim.
- Estimates based on average past costs shall be increased to include any costs that can reasonably be expected to occur that are not included within the averages. Estimates based on average past costs may be reduced to account for any treatment not reasonably expected to occur in the future based on medical documentation in possession of the administrator.
- Estimates of future medical costs based on average past costs shall not be reduced based on undocumented anticipated reductions in frequency of treatment or to reflect the substitution of treatments with a lower cost than utilized by the injured worker that may be available but that the injured worker is not utilizing. Estimates based on average past costs may be reduced based on reductions in the approved medical fee schedule and based on utilization review, except that reductions in estimates based on utilization review may not be reduced if the reductions are reasonably disputed. Estimates of future liability may be reduced based on the expectation of a third party recovery only in instances where an Order allowing credit has been issued pursuant to Labor Code Section 3861.
- Estimates of lifetime medical care and life pension benefits shall be determined based on the injured worker's life expectancy according to the most recent U.S. Life Expectancy Tables as reported by the U.S. Department of Health and Human Services, Centers for Disease Control and Prevention.
- Estimates of permanent disability shall not be reduced based on apportionment unless the claim file includes documentation supporting apportionment.
- Estimates shall not be reduced to reflect present value of future benefits.

We also recommend the City provide more detailed documentation when making adjustments to estimates made for future liability. Further, we recommend the City consider hiring an independent party to administer claims or evaluate the reasonableness of claims valuation.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Management Response:**

We have implemented procedures to help reduce errors in this area. The Risk Management division reviews claims on a 30-60 day diary cycle to determine accuracy of reserves based upon medicals, employer information and/or investigative findings.

***Finding 09-28- Inadequate Segregation of Duties in General Liability and Workers' Compensation Payment Process***

**Criteria:**

Under an appropriately designed internal control system, duties should be divided, or segregated, among different people to reduce the risk of error or inappropriate actions. This design is further supported in the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

**Condition:**

During our review of general liability and workers' compensation claims, we noted there was no adequate segregation of duties in the payment process of the claims. The Risk Management division within the City Attorney's Department handles the entire payment process. For workers' compensation, Risk Management division is responsible for receiving, recording, adjudicating, investigating, setting estimates, and paying the claims. For general liability, the claim is received by the City Controller and submitted to the City Attorney general liability division for processing. However, the Risk Management division prints and distributes its own checks for both general liability and workers' compensation claims using Valley Oak System (VOS) Portal, separate from the City's regular cash disbursement cycle. Printed checks are given to the City Controller and City Treasurer for signatures without any supporting documentation. Also, there was no supervision or review by other departments, like City Controller and City Treasurer in claim payment process.

**Effect:**

No segregation of duties in general liability and workers' compensation payment process results in greater error, abuse, and fraud risks.

**Recommendation:**

We recommend the City segregate the duties of receiving, recording, adjudicating, investigating, setting estimates, and paying the claims between the Risk Management and the City Controller's Office. The City Controller's Office should be in charge of payment processing, printing, and distributing the checks. We also recommend the City create a committee to oversee the general liability and workers' compensation claims process.

**Management Response:**

The City has indicated that the check processing function for general liability and workers' compensation will be turned over to the City Controller's Office as soon as the new IVOS check integration system is implemented. The City anticipates the new system will be fully integrated with the City Controller's Office by July 1, 2010. The City believes the workers' compensation and general liability programs are properly administered, therefore, do not see the need for an oversight committee.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 09-29- Weaknesses of the Valley Oak System (VOS) Portal***

**Criteria:**

Accounting standards require claim liabilities and expenses to be reasonable, objective, and verifiable.

**Condition:**

The City uses the Valley Oak System Portal to administer its general liability and workers' compensation claims. During our interview with Risk Management personnel and review of claims, we noted the following weaknesses of VOS Portal:

- VOS Portal could not identify duplicate claims entered unless the claim had the exact same date as the one previously entered.
- VOS Portal allows the claims administrator to increase reserve amount and make payments on closed claims.
- No automatic interface between VOS Portal and the City's general ledger.

**Effect:**

Information recorded in VOS Portal could be inaccurate.

**Recommendation:**

We recommend the City replace VOS Portal with their new system, IVOS, as previously planned, as soon as possible. A better claim management system is necessary to ensure accurate information is recorded. We also recommend the City implement automatic interface between the new system and the City's general ledger. In the case automatic interface could not be performed, the Risk Management and the City Controller's Office should periodically reconcile records between the new system and the City's general ledger.

**Management Response:**

The City agrees with this assessment and phase one of implementation of the new IVOS system was completed on December 1, 2009.

***Finding 09-30- Inadequate Process for Estimating Claims Liabilities***

**Criteria:**

Claims are usually settled at an amount greater than the original amount estimated by the claim adjuster. Therefore, most of the reported claim values at a given valuation date will not reflect the ultimate value of the claim costs. This difference between the reported claim value at a given evaluation date and the ultimate claim value is called Incurred But Not Reported ("IBNR"). To estimate IBNR, the City could use various methodologies, such as actuarial analysis, historical analysis of claim settlement amounts, and other methods.

**Condition:**

The City doesn't have procedures to make an estimate for the number of claims and associated liabilities for IBNR. However, subsequently, the City reviewed claims received after year-end and found none related to claims as of June 30, 2009.

**Effect:**

Without IBNR, the City's liability for general liability and workers' compensation as of June 30, 2009 is understated.



**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Recommendation:**

We recommend the City conduct an actuarial study to estimate IBNR. We also recommend the City develop, document, and implement policies and procedures to ensure information recorded in the system is accurate and complete.

**Management Response:**

The City agrees with the recommendation to hire an independent party to provide an estimation of IBNR for general liability and workers' compensation.

***Finding 09-31- Lack of Control over the Completeness of Self-insurance Claims***

**Criteria:**

Accounting standards require claim liabilities and expenses to be reasonable, objective, and verifiable. Title 8 California Code of Regulations §15400.1 regarding Claim Logs, self-insurer or its administrative agency shall maintain (1) a manually prepared log of all work injury claims for each self-insurer at each adjusting location in accordance with Title 8, Section 10103 and 10103.1; or (2) a computerized log of claims for each self-insurer at each adjusting location in accordance with Title 8, Section 10103 and 10103.1. The claim log shall be maintained at each of the self-insurer's or its administrative agency's claims adjusting locations. The claim log at each location shall be kept current and shall include all claims reported to the adjusting location. A claim log shall be found to be materially deficient if it fails to contain the elements of Title 8, Section 10103 and 10103.1; or fails to include all reported claims; or is not provided to the Manager or any subsequent administrator in readable form.

**Condition:**

Chronological claim numbers are used to identify each claim. Whether general liability or workers' compensation, the computer assigns a claim number to each file. The chronologically ordered claim numbers are assigned to each file to ensure that all claims have been accounted for. However, during our audit, we noted there are some claims with missing claim numbers.

**Effect:**

Lack of proper controls to track and record all claims can result in an understatement of claims liabilities due to an incomplete list of claims against the City and may cause more exposure to the City if litigations arises.

**Recommendation:**

We recommend the City document and enforce policies and procedures to ensure all claims are properly tracked and recorded.

**Management Response:**

The City agrees with this recommendation and the new IVOS program will accomplish this task.

***Finding 09-32- Inadequate Recordkeeping on Claim File***

**Criteria:**

Accounting standards require claim liabilities and expenses to be reasonable, objective, and verifiable. An example of documentation to support above criteria is mentioned in Title 8 California Code of Regulations §10101 and §15400, the claim file has to adhere to the requirements as follows:

1. For work injuries before 1990, the file should contain the following:

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

- a. Employers Report of Occupational Injury or Illness, Form No. 5020;
  - b. Every report made to the Administrative Director of the Division of Industrial Accidents; including but not limited to the letter of denial to the employee;
  - c. Doctor's First Report of Occupational Injury or Illness, Form No. 5021; d. Every subsequent relevant medical report; e. All applicable orders of the Workers' Compensation Appeals Board and reports relating thereto; f. A record of payment of compensation benefits as compensation is defined in Section 3207 of the Labor Code, together with a record of the periods covered by disability payments, including a copy of DIA Form 500, Notice of Termination of Benefits.
2. For work injuries between 1990 and 1994, the file should contain the following:
- a. An employer date stamped copy of the Employee's Claim for Workers' Compensation Benefits, DWC Form 1, or documentation of reasonable attempts to obtain the form.
  - b. Employers Report of Occupational Injury or Illness, DLSR Form 5020, or documentation of reasonable attempts to obtain it.
  - c. Every notice or report sent to the Division of Workers' Compensation.
  - d. A copy of every Doctor's First Report of Occupational Injury or Illness, DLSR Form 5021, or documentation of reasonable attempts to obtain them.
  - e. The original or a copy of every medical report pertaining to the claim, or documentation of reasonable attempts to obtain them.
  - f. All orders or awards of the Workers' Compensation Appeals Board pertaining to the claim.
  - g. A record of payment of compensation.
  - h. A copy of the application(s) for adjudication of claim filed with the Workers' Compensation Appeals Board, if any.
  - i. Copies of all notices sent to the employee pursuant to the requirements of the Benefit Notice Program established by Labor Code Section 138.4 and the notices required by Article 2.6 of Chapter 2 of Part 2 of the Labor Code, commencing with Section 4635.
3. For injuries reported on or after January 1, 2006, each self administering self insurer and claims administrative agency shall maintain a claim file for each indemnity and medical-only claim, including denied claims, and shall ensure that each file is complete and current for each claim. Contents of claim files may be in hard copy, in electronic form, or some combination of hard copy and electronic form. Files maintained in hard copy shall be in chronological order with the most recently dated documents on top, or subdivided into sections such as medical reports, benefit notices, correspondence, claim notes, and vocational rehabilitation. In addition to the contents specified in Title 8, California Code of Regulations, Section 10101.1, each indemnity file shall contain itemized written documentation showing the basis for the calculation of estimated future liability and for each change in estimated future liability for the claim. Files or portions of the files maintained in electronic form shall be easily retrievable.

Condition:

Upon review of workers' compensation claim files, we noted the claim files were missing the required DWC-1 forms, which acts as a "receipt" of the claim. We also noted there to be missing claim numbers on some of the claim files.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Effect:

Claims may not be recorded properly or in a timely manner. The completeness of the claims are compromised. The City is not in compliance with the recordkeeping requirements as regulated under Title 8 California Code of Regulations §10101 and §15400.

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure its compliance with the recordkeeping requirements as specified by Title 8 California Code of Regulations §10101 and §15400.

Management Response:

The City is currently in compliance with Title 8 California Code of Regulations §10101 and §15400.

***Finding 09-33- Reasonable and Consistent Support for Workers' Compensation Charges to Other Departments Needed***

Criteria:

Accounting standards require costs to be allocated on a reasonable and consistent basis. All costs and other data used to distribute the costs should be supported by formal accounting and other records.

Condition:

The City automatically charges other departments based on workers' compensation rates established every year. For fiscal year 2008-2009, the rates according to job classification are as follows:

- Fire - 10.75%
- Clerical - .95%
- Labor - 4.30%
- Management - 13.06%

There was no basis for setting the above rates.

Effect:

Some departments may incur higher or lower workers' compensation costs than they should because of inaccurate rates and inaccurate usage of rates.

Recommendation:

We recommend the City develop, document, and implement policies and procedures to, set the workers' compensation rates and ensure the rate is applied accurately according to employees' job classifications.

Management Response:

The City agrees with this recommendation and will work with the City Controller's Office and the City Manager's Office for implementation.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

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**Section III – Federal Award Findings and Questioned Costs**

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**Findings Related to HOME Investment Partnerships Program:**

***Finding 09-34- Noncompliance in Performance Reporting***

**CFDA Title and Number:** HOME Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2009

**Criteria:**

Pursuant to OMB Circular A-133 Compliance Supplement Part 4 Department of Housing and Urban Development CFDA# 14.239 performance reporting compliance requirements, as the prime recipient, the City is required to submit HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043) – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

**Condition:**

The City received \$612,137 from Department of Housing and Urban Development (HUD) for HOME program for year ended June 30, 2009. Funds received were used to fund the first time homebuyer program and the residential rehabilitation program. However, the City did not submit the required HUD 60002, Section 3 Summary Report to HUD for the residential rehabilitation program.

**Effect:**

Failure to submit the report resulted in noncompliance with grant performance reporting requirements.

**Questioned Costs:**

Not applicable

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure the required HUD 60002, Section 3 Summary Report is submitted to HUD accurately and timely.

**Management Response:**

The City agrees to develop, document, and implement policies and procedures to ensure compliance with HUD 60002 and Section 3 Summary required by HUD.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 09-35- Noncompliance with Period of Affordability Compliance Requirement Related to Annual Re-examination of Tenant Income (Eligibility)***

**CFDA Title and Number:** HOME Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2009

**Criteria:**

Pursuant to 24 CFR §92.252 (e) *Periods of Affordability*, "The HOME-assisted units must meet the affordability requirements for not less than the applicable period specified in the following table, beginning after project completion:

| <b>Rental Housing Activity</b>   | <b>Minimum period of affordability in years</b> |
|--|---|
| Rehabilitation or acquisition of existing housing per unit amount of HOME funds:<br>Under \$15,000 | 5   |
| \$15,000 to \$40,000   | 10  |
| Over \$40,000 or rehabilitation involving refinancing  | 15  |
| New construction or acquisition of newly constructed housing                                       | 20  |

In addition, pursuant to 24 CFR §92.252(h) *Tenant Income*, "The income of each tenant must be determined initially in accordance with §92.203(a)(1)(i). In addition, each year during the period of affordability the project owner must re-examine each tenant's annual income in accordance with one of the options in §92.203 selected by the participating jurisdiction. An owner of a multifamily project with an affordability period of 10 years or more who re-examines tenant's annual income through a statement and certification in accordance with §92.203(a)(1)(ii), must examine the income of each tenant, in accordance with §92.203(a)(1)(i), every sixth year of the affordability period. Otherwise, an owner who accepts the tenant's statement and certification in accordance with §92.203(a)(1)(ii) is not required to examine the income of tenants in multifamily or single-family projects unless there is evidence that the tenant's written statement failed to completely and accurately state information about the family's size or income." Furthermore, pursuant to 24 CFR §92.508(3)(vii), the City should also maintain "Records demonstrating that each rental housing project meets the affordability and income targeting requirements of §92.252 for the required period. Records must be kept for each family assisted."

**Condition:**

The City imposed period of affordability covenants on HOME assisted rental housing. To monitor the compliance, the City indicated that it obtains annual tenant income certifications from each property manager. Out of nine selected projects, the City was only able to provide two certifications. We also noted the two certifications that we received were incomplete – missing some income information and did not have updated information. Thus, we were unable to determine whether the City has properly monitored the compliance of HOME assisted rental housing with period of affordability covenants as they relate to the annual re-examination of tenant income.

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Effect:

The City is not in compliance with period of affordability compliance requirement. The City could be required to pay any HOME funds invested in housing that is determined to not meet the affordability requirements for the period specified above.

Questioned Costs:

\$1,589,403, which is loan amounts provided to CHDOs for development of affordable housing.

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure all HOME assisted rental housing property owners submit the annual tenant income certifications. These records should be maintained for five years in accordance with 24 CFR §92.508 (7)(c) (1). We also recommend the City monitor compliance of HOME assisted rental housing with period of affordability covenant, as part of its subrecipient monitoring.

Management Response:

The Agency has implemented a new annual tenant certification program based on the HUD regulations, including the year funded, funding amount, total number of units and affordability period. This program began in December 2009. This process will include outreach to existing management companies of multi-family units and single family homeowners; as well as, the development of organization capacity for management companies that operate HOME funded units within the City.

***Finding 09-36 – Noncompliance in Procurement Requirements***

**CFDA Title and Number:** HOME Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2009

Criteria:

Per OMB Circular A-110 and A-102 Common Rule, all recipients shall establish written procurement procedures. In addition, contract files shall be examined to: 1) Verify that the files document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection and the basis of the contract price. 2) Verify that procurements provide full and open competition. 3) Support the rationale to limit competition in those cases where competition was limited and that the limitation was justified. 4) Verify that contract files exist and that appropriate cost or price analysis was performed in connection with procurement actions, including contract modification and that the analysis supported the procurement actions. 5) Verify that the Federal awarding agency approved procurements exceeding \$100,000 when such approval was required. 6) Verify compliance with other procurement requirements specific to an award.

Condition:

Per review of the City Council Meeting Minutes, dated March 24, 2009, the City Council authorized the City Manager to enter into agreements with MDG Associates, B-Adair Consulting, and HBJ Associates for HUD Programs. Upon multiple requests, MGO was unable to obtain

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

supporting documentation to verify that the City complied with A-102 Common Rule and Circular A-110.

Effect:

Failure to collect and maintain proper evidence in the contract files may result in noncompliance of A-102 Common Rule and OMB Circular A-110.

Questioned Costs:

\$14,235

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure compliance with A-102 Common Rule and OMB Circular A-110 to ensure compliance with Procurement requirements.

Management Response:

The City agrees to develop, document, and implement policies and procedures to ensure compliance with A-102 Common Rule and OMB Circular A-110 regarding procurement requirements.

***Finding 09-37 – Noncompliance with the Allowable Costs/Cost Principles Requirement***

**CFDA Title and Number:** HOME Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2009

Criteria:

According to Appendix B Section 8.h.4 of 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, (OMB Circular A-87), "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation."

Condition:

We tested personnel costs in the amount of \$65,744 that were charged to the HOME program. We noted that certain employees worked on multiple activities or cost objectives other than the HOME program. However, personnel costs allocated to the HOME program were not supported by personnel activity reports or equivalent documentation.

Effect:

The City's personnel costs distribution is not supported by personnel activity reports or equivalent documentation; therefore, the City is not in compliance with the allowable costs/costs principles requirement

Questioned Costs:

\$65,744

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure all personnel costs distributed to the Federal award programs be supported by personnel activity reports or equivalent documentation.

**Management Response:**

The Agency will incorporate one of the six (6) provisions indentified within the OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. Circular A-87 sets forth guidance for support of salaries and wages and standards regarding time distribution and payroll documentation. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

This policy will be implemented by July 1, 2010. The primary individual responsible for the implementation of policy is Michael Antwine, Deputy Director of Redevelopment, with oversight from Dr. Kofi Sefa-Boakye, Director of Redevelopment.

**Findings Related to Section 8 Housing Choice Vouchers:**

***Finding 09-38- Inaccurate Financial Management Systems Report***

|                               |   |
|-------------------------------|---|
| <b>CFDA Title and Number:</b> | <b>Section 8 Housing Choice Vouchers #14.871</b>        |
| <b>Federal Agency:</b>        | <b>U.S. Department of Housing and Urban Development</b> |
| <b>Award Year:</b>            | <b>June 30, 2009</b>                                    |

**Criteria:**

Pursuant to 24 CFR §85.20 (b) (1) standards for financial management systems, the financial management systems of other grantees and subgrantees must meet the defined standards in the following areas:

- Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records. Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.



**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

- Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition:

A Public Housing Authority (PHA) is required to report the usage of housing assistance payment vouchers and administrative expenses to the U.S. Department of Housing and Urban Development (HUD) quarterly. There are two types of housing payment vouchers: portability and in-house. For portability, the PHA will seek reimbursements from other PHA(s). For in-house, the PHA will obtain allocations from HUD for in-house housing payment vouchers used. Upon review or analysis data submitted by the PHA, HUD will allocate the funds to the PHA accordingly. The City's Local Housing Authority (LHA), a PHA, reported to HUD quarterly the usage of housing assistance payment vouchers and administrative expenses through the Voucher Management System (VMS). During our review, we noted that the quarterly reports to HUD did not agree to the City's financial records. For the year ended June 30, 2009, the City's LHA reported to HUD \$2,290,179 expenditures incurred for portability and \$6,883,353 for in-house housing assistance payment vouchers. However, the City's financial records reported \$2,507,439 expenditures incurred for portability and \$6,714,708 for in-house housing assistance payment vouchers.

The discrepancies noted above were due, in part, to the City's LHA preparing the reports based on inaccurate housing assistance payment vouchers submitted to the City's Controller Office for payment processing. Some in-house participants were classified as portability participants, and vice versa. Another reason for discrepancies was the City's Controller Office sometimes processed payment not in accordance to the vouchers submitted due to data entry error. As a result of the error in reporting, the City's LHA did not receive the correct amount of allocations from HUD for in-house housing assistance payments incurred. The City received \$6,409,791 allocations from HUD for fiscal year ended June 30, 2009.

Effect:

Failure to submit the reports accurately resulted in incorrect allocation from HUD for in-house housing assistance payments incurred and incorrect reimbursement amounts from other LHAs for portability housing assistance payments incurred.

Questioned Costs:

Cannot be determined because of discrepancies between payments per general ledger and payments per LHA and errors in reporting as noted above.

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure the accuracy of the usage of housing assistance payment vouchers and administrative expenses incurred reported to HUD. We also recommend the City submit the revised reports to HUD.

Management Response:

Regarding the recommendation to develop, document and implement policies and procedures to ensure the accuracy of the usage of housing assistance payment vouchers and administrative expenses incurred to HUD, the following steps have been instituted:

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

1. In January 2009, the Housing Authority and the City Controller's Office began to coordinate three separate monthly reports concerning housing assistance payments: one report for in-house payments, one report for port-in payments and one report for port-out payments. The reports are reviewed by both departments prior to housing assistance payments being processed for payment.
2. The Housing Authority utilizes these reports to accurately track port-in payments from other housing authorities to ensure correct amounts are being paid for port-in files.
3. Lines of communication have been established between the City Controller's Office and the Housing Authority concerning the Housing Authority's monthly expenditures. The Housing Authority anticipates the cooperation from the City Controller's Office for explanations and back-up documentation regarding any discrepancies between the prepared monthly housing assistance payment reports and the subsequent monthly expenditure reports.

This implemented policy allows both departments to electronically review, amend and reconcile owner housing assistance payment efficiently and immediately.

Regarding the recommendation the Housing Authority submit revised reports to HUD, the Housing Authority will submit revised VMS data upon receipt of documentation of adjustments and/or changes from the City Controller's Office.

**Findings related to Single Audit – General:**

***Finding 09-39- Weakness Noted in SEFA Preparation***

**Criteria:**

Pursuant to OMB Circular No. A-133 Subpart C Section .300 (a) and (d), the City has responsibility to:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § \_\_\_.310.

**Condition:**

Upon review of Schedule of Expenditures of Federal Award (SEFA) provided by the City, we noted that federal expenditures were not accurately reported in the SEFA. The City included matching and non-reimbursable expenditures related to HUD Housing Choice Vouchers as federal expenditures in the SEFA. Further, we also noted some non-federal expenditures were included in SEFA.

**Effect:**

Failure to prepare accurate and complete SEFA resulted in noncompliance with OMB Circular No. A-133 Subpart C Section .300 (a) and (d).

**Questioned Cost:**

Not applicable

**CITY OF COMPTON**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure the SEFA is prepared accurately and completely in accordance with OMB Circular No. A-133 Subpart C § \_\_.300 (a) and (d).

Management Response:

The City will ensure that this isolated case of inclusion of non-federal expenditures in the SEFA does not occur in the future.

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**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

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**Status of Prior Year Financial Statement Findings**

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***Finding 08-01 - Lack of Control in Cash Disbursement – Adding New Vendors***

**Criteria:**

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

**Condition:**

During our review of the cash disbursement process, we noted that there is no segregation of duties between adding new vendors and processing accounts payable. In addition, the City's policy requires a signed Form W-9 and the initiating department head's signature before adding a new vendor to IFAS. However, we noted that accounts payable personnel can input new vendor information without any approval or review.

**Effect:**

Lack of segregation of duties could lead to creation of and payment to fraudulent vendors.

**Recommendation:**

We recommend the City segregate the duties of adding new vendors to non-accounts payable personnel. In addition, we recommend the City develop, document, and implement policies and procedures to require signed Forms W-9 and the initiating department head's approval before adding a new vendor.

**Current Status:**

Fully Implemented

***Finding 08-02 - No Automatic Interface***

**Criteria:**

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "Financial information is needed for both external and internal uses. It is required to develop financial statements for periodic external reporting, and on a day-to-day basis, to make operating decisions, monitor performance, and allocate resources. Pertinent information should be identified, captured, distributed in a form and time frame that permits people to perform their duties efficiently."

**Condition:**

The City utilizes ADP for payroll system, IFAS for general ledger system, Springbrook for cash receipt and utility billing system, and Valley Oak System (VOS) for workers compensation and general liability claims. There is no automatic interface between these systems to IFAS, general ledger system. All interfaces were done manually and/or through journal entries. No automatic interface resulted in discrepancies noted in several financial statement areas, such as cash, receivables, prepayments, revenues, and expenditures. In addition, we also noted that sometimes

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

there were difficulties in transferring cash receipt data from Springbrook to IFAS, which delayed information transmission to the general ledger.

Effect:

No automatic interface between critical information systems results in failure to deliver pertinent financial information accurately and timely.

Recommendation:

We recommend the City develop and implement automatic interfaces among critical information systems. We also recommend the City utilize an enterprise management system, which serves its financial reporting and operation needs.

Current Status:

Not Implemented. Please see Finding 09-04.

***Finding 08-03 - Lack of Segregation of Duties between Payroll and Human Resources Function***

Criteria:

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Condition:

The City requires any change in personnel status and/or payroll to be documented through a personnel action form (PA 101). PA 101 is to be approved by the Department Manager, Human Resources Director, City Controller, and City Manager. The approved PA 101 will be given to the Payroll Division at the City Controller's Office (Payroll), who will initiate personnel changes, including salary rates in the payroll system. However, there is no review or comparison performed against PA 101 by non-Payroll personnel to ensure the accuracy and validity of changes made in the payroll system.

Effect:

No segregation of duties between changing personnel information and processing payroll results in greater error and fraud risks.

Recommendation:

We recommend the City have Human Resources or other non-Payroll related personnel review the accuracy of personnel changes in the payroll system.

Current Status:

Fully Implemented

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 08-04 - Lack of Control of Safeguard of Cash and Check Stocks***

**Criteria:**

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records."

**Condition:**

During our review of the cash receipt process, we noted that there is no limit on how much cash that cashiers may hold in their drawers before they transfer cash to the vault. In addition, during our review of the cash disbursement process we noted that the City's blank checks related to Risk Management are kept in a locked cabinet. However, all accounting staff at the City Controller's Office have access to the locked cabinet.

**Effect:**

Vulnerable assets, such as cash and unnumbered blank checks have higher exposure to risk of loss or unauthorized use.

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to establish physical control to secure and safeguard vulnerable assets. For cash, we recommend the City set limits of how much cash may be in cashiers' drawers throughout the day. The amount of cash in excess of the limit should be transferred to the vault. For check stock, we recommend that the City periodically account for check numbers used and unused as an additional control over the safeguard of the checks.

**Current Status:**

Fully Implemented

***Finding 08-05 - Lack of Control in Cash and Investment Process***

**Criteria:**

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. " In addition, the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office also mentions, "Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees."

**Condition:**

During our review of the cash and investment process, we noted that the Treasurer's Office utilized online banking systems to obtain cash balances for the day. The Treasurer's Office did not maintain a record of cash receipts and disbursements to track its cash balances, sources, and

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purposes. For example, we noted that there was approximately \$1 million in three bank accounts that have been inactive for more than ten years. Furthermore, we noted that all bank balances in excess of \$2 million would be directly invested in various investment vehicles, such as the Local Agency Investment Fund (LAIF), certificates of deposit (CDs), etc. These investments were made by the Deputy Treasurer without any review or approval.

**Effect:**

Without maintaining its own records, the Treasurer is not able to track its cash balances. Since the Treasurer did not know the City's "true" cash balance, the City could be in a position to not be able to fulfill its obligations timely. Cash needed could be in non-liquid or unauthorized investments.

**Recommendation:**

We recommend the Treasurer's Office coordinate with the Controller's Office to establish a record keeping system to account for all cash received and disbursed. We also recommend the Treasurer's Office develop, document, and implement policies and procedures to ensure all investments are properly reviewed and approved. In addition, we recommend the Treasurer and Controller's Office develop cash flow projections assessing cash needs, and relate those needs to the availability of invested funds.

**Current Status:**

Fully Implemented

***Finding 08-06 - No Cost Allocation Plan***

**Criteria:**

Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards and other cost centers are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards and other cost objectives.

**Condition:**

During our audit, we noted the City did not have a cost allocation plan, which is used as documentation to identify, accumulate, and allocate or develop billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The City either allocated these costs based on budget or did not allocate these costs to Federal award and other cost objectives.

**Effect:**

Costs may not be allocable to Federal award and other cost objectives in accordance with relative benefits received.



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**Recommendation:**

We recommend the City develop, document, and implement a cost allocation plan to ensure costs are allocable to Federal awards and other cost objectives in accordance with relative benefits received.

**Current Status:**

Not Implemented. Please see Finding 09-05.

***Finding 08-07 - Inaccurate Interest Income Allocation***

**Criteria:**

Pursuant to SAS No. 106, there are four relevant assertions related to presentation and disclosure:

- Occurrence and Rights and Obligations. Disclosed events have occurred and pertain to the entity
- Completeness. All disclosures that should have been included in the financial statements have been included.
- Classification and Understandability. Financial information is appropriately presented and described and disclosures are clearly expressed.
- Accuracy and Valuation. Financial information is disclosed fairly and at appropriate amounts.

**Condition:**

The City has 146 separate funds. 24 out of 146 funds have their own bank accounts. The remaining funds are deposited to the City's general account. Upon review of the interest income allocation worksheet prepared by the City Controller's Office, we noted the City did not allocate interest income received by the City's general account proportionally. The City allocated interest income only to 9 out of 146 funds. 24 federal grants related funds were not allocated interest income.

**Effect:**

Funds which do not have separate bank accounts were not allocated interest income.

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to allocate interest income proportionately to each fund.

**Current Status:**

Fully Implemented

***Finding 08-08 - Noncompliance with the Debt Agreement***

**Criteria:**

Pursuant to the debt agreement, the City is required to submit the continuing disclosure certificate every year no later than June 30<sup>th</sup> each year, for the prior fiscal year, providing certain financial information and operating data relating to the City in the form of annual report (the "Annual Report") and notice of material events (the "Listed Events") to each Nationally Recognized Municipal Securities Information Repository, and the State Repository, if any. In addition, for the

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2008 Lease Revenue Bond, the City is required to submit to the Bank Trustee prior to the beginning of each fiscal year a City Certificate certifying that the City has made provision in its proposed annual budget for the lease payment due.

**Condition:**

The City failed to comply with its continuing disclosure requirements. As mentioned in the 2008 Lease Revenue Bond Official Statement, the City filed Annual Reports after deadline and omitted certain required financial information for each of the years 2005 to 2008. The City also did not submit to the bank trustee a City Certificate certifying that the City has made provision in its proposed annual budget for the lease payment due.

**Effect:**

The City was not in compliance with the debt agreement requirements above.

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure its compliance with the continuing disclosure, the lease payment provision, and other requirements as specified on its debt agreement requirements.

**Current Status:**

Fully Implemented

***Finding 08-09 – Lack of Reconciliation Performed on Water Prepayment***

**Condition:**

The City's Water Department (Water) collects prepayments from new customers. This prepayment will be refunded or applied to the customers' outstanding bill when they close the accounts or when they request the prepayment refund. The Water usually refunds the prepayment when the customer has a good payment history. The Water utilizes Springbrook to manage billing, customer accounts, and prepayment. Springbrook does not have automatic interface to IFAS, the City's general ledger. Therefore, when the Water Department applies prepayment to the outstanding bill in the Springbrook, this reduction on the prepayment is not transmitted to the City's general ledger. The City's general ledger records of reduction of the outstanding prepayment only when the Water requests check from the City's Controller's Office for prepayment refund. As a result, the City's general ledger reported \$800,000 more than Springbrook on outstanding prepayment. There is no reconciliation performed to reconcile this difference.

**Effect:**

The City understated revenue and overstated outstanding prepayments by approximately \$800,000.

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to periodically reconcile prepayment balance per Springbrook and IFAS, the general ledger to ensure timely recognition of revenue received.

**Current Status:**

Fully Implemented

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***Finding 08-10 - Inadequate Year End Closing Process***

Condition:

We noted several accounts whose balance had not been evaluated as part of year end closing procedures resulting in several proposed adjusting journal entries related primarily to accounts payable, accrued liabilities, due to other funds, and due from other funds.

Effect:

Inadequate year end closing process resulted in numerous audit adjustments and contributed to a delay in issuance of the financial statements.

Recommendation:

We recommend the City develop, document, and implement policies and procedures to complete the analysis of the general ledger, such as accounts payable and accrued liabilities, prior to closing the general ledger to assure the financial statement account balances are accurately reported. This enhancement to the closing process should result in at least a reduction in the number of audit adjustments required.

Current Status:

Fully Implemented

***Finding 08-11 - Treasurer's Investment Report***

During our testing of cash and investments we noted the following conditions:

- The Investment Reports for the period ending June 30, 2008 did not include investments held by third parties (fiscal agents) as required by Government Code Section 53646 (b) (1).
- The Investment Report for the period ending June 30, 2008 did not include investment ratings as required by Government Code Section 53646 (b) (1).

Recommendation:

We recommend that:

- The City establish and follow a policy to comply with all Government Code requirements relating to cash and investments.
- Reconciled cash balances be reported in the Investment Report.

Current Status:

Not implemented. Please see Finding 09-06.

**Findings - Related to Information Technology:**

***Finding 08-12 - Outdated IT Job Descriptions***

Condition:

Updated position descriptions are a critical element of an effective management and serves to set clear expectations about job performance for employees. Generally, position descriptions should be updated every three to five years. Our review found that the job descriptions for the Information and Technology Systems Department (IT) job descriptions were outdated; one of the IT position

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description dating back to 1995. Outdated job descriptions could create misunderstanding of job expectations.

**Recommendation:**

The City IT Department, working in conjunction with City Human Resources (HR) Department, should update its position descriptions to the current IT roles and responsibilities carried out by staff.

**Current Status:**

City job descriptions have been drafted and are under review by the Human Resources Department, who reported ongoing discussions with the City bargaining unit about them. After completion of discussions and agreement with the City bargaining unit, City job descriptions must be approved by City Council. There is no expected date at which the job descriptions will be approved. Please see Finding 09-10.

***Finding 08-13 - An IT Strategic Plan Has Not Been Developed***

**Condition:**

IT industry standards recommend that sound IT organizations should have an IT strategic plan in place that addresses the goals and objectives of the Department and how those goals and objectives will be met and measured. The City of Compton is in the process of developing a formalized IT strategic plan. In conjunction with this, an IT Steering Committee is also being formed. The draft IT Strategic Plan will be presented to the City Manager for official review and approval by August 1, 2009.

**Recommendation:**

The City should continue with the finalization and implementation of the draft IT Strategic Plan. In conjunction with this development, the City IT Department should also institute plans and procedures to ensure that the plan is periodically reviewed and updated and the status of projects is communicated to the City Manager.

**Current Status:**

The City had not yet formed an IT Steering Committee.

The City Information Systems Director had prepared an internal 2009 IT Strategic Plan, but the Plan did not include input from City department heads or City executive management. In developing the plan, the Information Systems Director considered the IT needs of the City and its respective departments. The Information Systems Director reported cuts in the budget adversely affected IT related planning. Please see Finding 09-11.

***Finding 08-14 - No Formal IT Risk Management Program Has Been Implemented***

**Condition:**

IT industry standards recommend the implementation of IT risk assessments, which services as a basic internal control to identify potential threats and other vulnerabilities of the City's information network. Our review found that the City has not had an independent IT risk assessment performed of its IT infrastructure. Without a risk assessment, the City has no formal

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means to identify high risks areas for intrusion, fraud, and other malicious or internal threats that would need remediation.

**Recommendation:**

The City IT Department should conduct an IT risk assessment to ensure that IT risks are properly identified and addressed. Upon implementing any recommended corrective actions, the City should conduct periodic evaluations to assess the effectiveness of the risk mitigation measures.

**Current Status:**

An IT risk assessment, to be performed by an external firm, has been rescheduled by the City's IT Director for February 2010. Please see Finding 09-12.

***Finding 08-15 - The City Lacks Proper Segregation of Duty Controls within the Financial Application***

**Condition:**

IT industry standards require access controls to financial management systems to be strictly monitored and granted to selected employees. We noted that the City does not formally review access rights to ensure that user accounts are up to date, are appropriate for their job duties, and a proper segregation of duties has been established and maintained. As a result, we could not determine whether five persons in the City Controller's Office (Controller) should have full access within the IFAS financial management system. Additionally, other persons in the Controller's office may have access beyond what is required for their current duties and responsibilities. We also noted that the Human Resources (HR) and Payroll personnel inappropriately have access to both human resources data and payroll data of ADP payroll system. Inadequate segregation of duties could lead to misstatements of the City's financial information due to abuse, error, or fraud.

**Recommendation:**

The City's IT Manager, working with the application and data owners, should develop and implement procedures to ensure that the authorization roles within the financial and HR applications are periodically reviewed by the application owners to ensure they are up to date and enforce a proper segregation of duties.

**Current Status:**

Not implemented. Please see Finding 09-13.

***Finding 08-16 - Network Password Configuration Requirements Are Inadequate***

**Condition:**

Network password configuration controls serves as a critical defense against unauthorized access for internal and external threats. Although IT industry standards have established generally accepted protocols for password and network access controls, the City has not yet implemented them. We determined the current password requirements for accessing the City's network are configured for:

- A length of at least 6 characters in comparison to IT industry standards that require a length of between 7 to 14 characters.

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- An expiration period of 180 days in comparison to IT industry standards that require an expiration period of between 30 and 90 days.
- No minimum password aging period in comparison to IT industry standards that require a minimum password age of 1 day before a password can be changed.
- Password history: The prior six passwords are invalid In comparison to IT industry standards that require the last 12 to 24 passwords.
- Lockout threshold of five attempts with a lockout duration of 60 minutes for failed logons in comparison to IT industry standards that require system administrator intervention after three to five failed logon attempts.

**Recommendation:**

The City's IT Department manager, working in conjunction with the City Manager's office or IT Steering Committee, should develop and implement password configuration requirements for accessing the City network, applications and databases. These electronic policies should be consistent with the paper policies previously identified. Per best practices, the network, applications and databases will be configured to require user account passwords to adhere to the following standards:

- Length of between 7 and 14 characters
- Expiration period of between 30 and 90 days.
- A minimum password age of 1 day before a password can be changed.
- A password history of at least 12, meaning a password must be changed at least 12 times before it can be reused.
- An account lockout threshold of between 3 and 5, meaning 3 to 5 failed logons will lock a user's account and require the IT department to re-set the password for the user.

**Current Status:**

Partially Implemented For Network Access

Not Implemented for the City's Financial Application

Although there has been no formal approval by the City Manager, password configuration requirements are in effect for the City's network. We were provided with a screen shot of GPO settings for the City's IT network, which included:

- 8 character minimum password length
- 90 day expiration period
- Minimum password age of 3 days
- 6 password history remembered
- Password must meet complexity requirements: Enabled
- Account lockout after five invalid logon attempts.

The password requirement settings within the network environment meet all the best practices requirements except for the number of password histories remembered. Best practices recommend at least 12, while current network settings are for six.

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The City did not provide information on password configuration settings for access to its financial application. Without this information, we are unable to provide verification of appropriate password configuration settings for the City's financial system. Please see Finding 09-14.

***Finding 08-17 - The City Lacks a Formal Policy and Procedure for Granting Network Administrator Access***

Condition:

The City does not have formal policies and procedures defining which positions or duties would require administrator access to the City network environment: Enterprise Schema and Domain Administrative groups within MS Active Directory. This requirement should ensure that only a minimum number of personnel are granted network administrator authorizations within the network environment and that they are properly approved for access. Without a formal review of this type of administrator access within the network, an undue number of personnel may be granted this high level of authority within the network, increasing the risk of unauthorized activities or changes being made to the network.

Recommendation:

The City's IT Department manager should develop and implement formal policy defining which positions or duties should be granted access to the MS Active Directory network environment at the Administrator level. This guideline or policy should ensure that only a minimal amount of personnel are allowed access and that the access is critical to the performance of their duties and properly approved by the IT Department manager.

Current Status:

Formal policy regarding network administrator access is under review with Human Resources and the bargaining units. The City does not have an expected date of completion. Please see Finding 09-15.

***Finding 08-18 - The City Lacks Formal Policy and Procedures for User Access Termination***

Condition:

The City does not have formal policies and procedures to ensure that terminated employees, contractors, temps, or interns are removed from network, application and database access as soon as the departure is recognized. Without assurance that terminated personnel are removed from network, application and database access, the City is at increased risk of malicious activity occurring within the network.

Recommendation:

The City's IT Department, working in conjunction with City HR department, should develop and implement policies and procedures to ensure that departing employees, temps, interns and contractors are removed from network, application and database access as soon the departure is recognized.

Current Status:

The HR Department drafted policies and procedures that are under review by the City's bargaining unit. After completion of discussions and agreement with the City bargaining unit,

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policies and procedures must be approved by City Council. There is no expected date at which they will be approved. Please see Finding 09-16.

***Finding 08-19 - Formal Data and Application Owners have not been Assigned***

**Condition:**

Formal data and application owners for the financial applications and information managed within the applications have not been established. It is the formal data and application owners who should be the final authorization for granting personnel user accounts to the applications and reviewing user authorization roles.

**Recommendation:**

The City Manager, working in conjunction with the IT manager, should establish formal data and application owners for all of the financial applications used by the City. User account setups should ultimately be approved by the formal data and application owner (or a formal designee) as well as the user's authorization roles within the application.

**Current Status:**

IT management has subsequently implemented recommendation above in the fiscal year 2010. Please see Finding 09-17.

***Finding 08-20 - There is no Audit Trail for New User Account Authorizations and Creation***

**Condition:**

There is no audit trail available to ensure that new user accounts are properly approved and that only minimal authorizations are granted within the network and applications.

**Recommendation:**

The City IT department, working in conjunction with the City HR department, should develop and implement policy and procedures to ensure that all users granted access to the network, applications and databases are properly approved and that the authorization audit trail is maintained.

**Current Status:**

Policies and procedures have been drafted and provided to the Human Resources Department which is in negotiations with City Bargaining Units. The content of policies and procedures is subject to review by the Bargaining Units, and possible change. There is no expected date at which the policies and procedures will be approved. Please see Finding 09-18.

***Finding 08-21 - The City Lacks a Formal Computer Usage Policy***

**Condition:**

No formal Computer Usage Policy has been adopted. A City Computer Usage Policy draft is currently pending for the approval. However, the current draft of Computer Usage Policy does not address the following IT-related issues:



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- Physical security of IT assets. Personnel should be made aware of City expectations that computer assets assigned an individual will be maintained and secured appropriately (i.e. not left unattended or unsecured, not left in a car, etc)
- Ownership of information, data and software on City IT assets. Users should be made aware that all software and data on City IT assets are the sole property of the City.
- City Access to Computer Information and Hardware: Personnel should be made aware that the City may inspect or monitor any City owned, leased, or controlled equipment including inspection of email and internet usage.

**Recommendation:**

The City IT Department should update the current draft of the City Computer Usage Policy and work with the City Manager to have it adopted as soon as possible.

**Current Status:**

Not implemented. Please see Finding 09-19.

Policies and procedures have been drafted and provided to the Human Resources Department which is in negotiations with City Bargaining Units. The content of policies and procedures is subject to review by the Bargaining Units.

The draft "City of Compton Preliminary Security and Procedures provided does not address the following IT-related issues identified in 2008:

- Physical security of IT assets. Personnel should be made aware of City expectations that computer assets assigned an individual will be maintained and secured appropriately (i.e. not left unattended or unsecured, not left in a car, etc)
- Ownership of information, data and software on City IT assets. Users should be made aware that all software and data on City IT assets are the sole property of the City.
- City Access to Computer Information and Hardware: Personnel should be made aware that the City may inspect or monitor any City owned, leased, or controlled equipment including inspection of email and internet usage.

***Finding 08-22 - No Logging for Database Changes is Being Accomplished***

**Condition:**

Proper system controls allow the ability to track and identify when changes are made to financial system tables or other configurations. Currently, the City does not have controls in place to track and monitor coding and configuration changes to the HR/Payroll and Financial systems. Without the controls in place, the City is at risk of undetectable fraud or abuse.

**Recommendation:**

The City Manager, working in conjunction with the IT Department manager, should investigate the feasibility of implementing logging of changes being made to the database. These logs should be periodically reviewed for malicious or unauthorized activity. Alternatively, the City could consider other types of database monitoring systems or software.

**Current Status:**

Not implemented. Please see Finding 09-20.

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***Finding 08-23- The IT Department does not have Formal Policy and Procedure for Monitoring or Reviewing Security Logs***

**Condition:**

The City IT department does not have formal policies or procedures to ensure that unauthorized access control systems are properly monitored within the City's IT network.

**Recommendation:**

The City IT department should develop, document, and implement policies and procedures to ensure that security logs are reviewed at frequent intervals for timely identification of unauthorized access attempts and corrective actions are immediately taken to address the risk.

**Current Status:**

In Progress. Please see Finding 09-21.

***Finding 08-24 - Segregation of Duties on Payroll Jobs is Lacking***

**Condition:**

During our review of routine jobs on payroll and cash receipt, we noted that there was not an adequate segregation of duties on payroll jobs or tasks. Payroll is responsible to transmit payroll data to ADP for processing. Then, ADP will transmit the result to Payroll for review. If an error is found, Payroll will revise or change the data and transmit revised payroll data to ADP. In other words, Payroll has the ability to revise or change and transmit the payroll data without proper management oversight over the changes. Inadequate segregation of duties on payroll jobs could result of misstatements of financial information due to abuse, error, and fraud.

**Recommendation:**

The City should develop, document, and implement policies and procedures to ensure a proper segregation of duties on payroll jobs. Job functions should be defined in such a way as to require manager approval over all transactions and inputs from clerical staff. No single person should have the ability to conduct all steps in the payroll transaction process.

**Current Status:**

Partially Implemented. Please see Finding 09-22.

We were provided with access request forms for the payroll function which show roles and responsibilities for 3 employees. However, the forms were not signed by a designated data or application owner.

We were provided with evidence of current levels of access to the City's financial system; however, they were not developed pursuant to formal policies and procedures nor through discussion with the Controller's Office.

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**Findings related to General City:**

***Finding 08-25 - Lack of Oversight in Financial Statements Preparation***

Criteria:

Statement of Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an audit* emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation of the financial statements, including the notes to the financial statements, in conformity with U. S. generally accepted accounting principles. The City's external auditor cannot be part of the internal control. The standards also define a lack of oversight and understanding of the financial reporting process as a significant deficiency, which includes the selection and application of accounting principles that are in conformity with generally accepted accounting principles.

Condition:

For the current year, the City has assumed increased responsibility by preparing its own financial statements. However, the City did not have adequate internal controls to ensure accurate and complete financial statements. Some of required notes to the financial statements were not presented. We also noted the City did not have an audit committee or its equivalent, who should oversee the preparation of audited financial statements.

Effect:

Inadequate oversight over financial statements preparation results in a significant deficiency or material weakness over financial reporting process.

Recommendation:

We recommend the City develop, document, and implement internal control policies and procedures over financial statements preparation to ensure accurate and complete financial statements. We also recommend the City established an audit committee or its equivalent to provide oversight over audit related matters including audited financial statements preparation.

Current Status:

Not implemented. Please see Finding 09-23.

***Finding 08-26- Non-compliance with Conflict of Interest Requirement***

Criteria:

According to California Code of Regulations Title 2 §18700 – 18753 and Government Code §87207, public disclosure statements should require disclosure of financial interests in real property, investments, and other business income sources or positions. In addition, public disclosure statements should be filed annually. The submission deadline is April 1 the following year.

Condition:

In accordance with the City Council Resolution No. 21,810, there are 125 officials required to submit annual public disclosure statements (Form 700) for the period January 1 to December 31, 2007. Of 125 required officials, we noted 17 officials submitted Form 700 after the deadline and 22 officials did not submit Form 700.

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**Effect:**

The Agency was not in compliance with California Code of Regulations Title 2 §18700 – 18753 and Government Code §87207.

**Recommendation:**

The Agency should develop, document, and implement policies and procedures to ensure all officials submit annual public disclosure statements timely.

**Current Status:**

Not implemented. Please see Finding 09-25.

***Finding 08-27 - Lack of Fraud Prevention Policies and Procedures***

**Criteria:**

Pursuant to Management Antifraud Programs and Controls issued by AICPA, entities can implement the following three fundamental elements to prevent, deter, and detect fraud:

- Create and maintain a culture of honesty and high ethics;
- Evaluate the risks of fraud and implement the processes, procedures, and controls needed to mitigate the risks and reduce the opportunities for fraud;
- Develop an appropriate oversight process.

**Condition:**

Upon interview with the City's management and review of employee handbook, we noted the City's management is required to complete ethic exams periodically. However, there is no periodic employee training on ethical challenges related to fraud, abuse, kickbacks, and other relevant issues. We also noted the City did not have a comprehensive written fraud prevention policy. The City's code of conduct does not address how the employees should report any fraud allegations. There was no fraud hotline available as a mechanism for employees to report allegations without any fear of retaliation. In addition, there were control deficiencies in regard to segregation of duties in the City, such as in the risk management, cash disbursement, cash receipt, and payroll related areas.

**Effect:**

Lack of adequate fraud prevention policies and procedures could result in abuse, fraud, and misstatement of the City's assets and financial activity.

**Recommendation:**

As recommended by the Association of Certified Fraud Examiners (ACFE), the City should develop, document, and implement fraud prevention policies and procedures, which include the following:

- Instituting a hotline;
- Setting the principled tone at the top;
- Developing a code of conduct and a confirmation process;
- Creating a positive environment;
- Hiring and promoting appropriate employees;
- Instituting continuous training;
- Having fair and balanced discipline;

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- Identifying and measuring fraud risks;
- Implementing and monitoring internal controls;
- Having a strong and independent audit committee;
- Hiring effective internal auditors and Certified Fraud Examiners;
- Contracting independent external auditors;
- Constructing a Fraud Investigation/Financial Integrity Unit;
- Using case management and technology tools; and
- Emphasizing cross-group collaboration.

Current Status:

Fully Implemented.

***Finding 08-28 - Lack of Support for Interfund Charges***

Criteria:

According to 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) Attachment A (3) (a), "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

Condition:

We noted the City records interfund revenue related to charges for services and interfund expenses related to management services and environmental and human services, which are approved in the City's annual operating budget. However, there is no documentation or allocation basis for amounts being budgeted.

Effect:

The City is not in compliance with cost principles for State, Local, and Indian Tribal Governments.

Recommendation:

We recommend the City develop and implement written policies and procedures that identify direct charges. In addition, the City should also develop and implement a cost allocation plan related to indirect internal service charges.

Current Status:

Not implemented. Please see Finding 09-26.

**Findings Related to Risk Management:**

***Finding 08-29 - No Written Utilization Review Policy and Procedure for Workers' Compensation Related Injury Medical Bills***

Criteria:

Pursuant to Title 8 California Code of Regulations § 9792.7 "Utilization Review Standards—Applicability," every claims administrator shall establish and maintain a utilization review process for treatment rendered on or after January 1, 2004, regardless of date of injury, in compliance with Labor Code section 4610. Each utilization review process shall be set forth in a utilization review plan which shall contain:

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- The name, address, phone number, and medical license number of the employed or designated medical director, who holds an unrestricted license to practice medicine in the state of California issued pursuant to section 2050 or section 2450 of the Business and Professions Code.
- A description of the process whereby requests for authorization are reviewed, and decisions on such requests are made, and a description of the process for handling expedited reviews.
- A description of the specific criteria utilized routinely in the review and throughout the decision-making process, including treatment protocols or standards used in the process. A description of the personnel and other sources used in the development and review of the criteria, and methods for updating the criteria. Prior to and until the Administrative Director adopts a medical treatment utilization schedule pursuant to Labor Code section 5307.27, the written policies and procedures governing the utilization review process shall be consistent with the recommended standards set forth in the American College of Occupational and Environmental Medicine's Occupational Medicine Practice Guidelines, Second Edition. The Administrative Director incorporates by reference the American College of Occupational and Environmental Medicine's Occupational Medicine Practice Guidelines (ACOEM), Second Edition (2004), published by OEM Press. A copy may be obtained from OEM Press, 8 West Street, Beverly Farms, Massachusetts 01915 (www.oempress.com). After the Administrative Director adopts a medical treatment utilization schedule pursuant to Labor Code section 5307.27, the written policies and procedures governing the utilization review process shall be consistent with the recommended standards set forth in that schedule.
- A description of the qualifications and functions of the personnel involved in decision-making and implementation of the utilization review plan.
- A description of the claims administrator's practice, if applicable, of any prior authorization process, including but not limited to, where authorization is provided without the submission of the request for authorization.

Condition:

Upon interview with the City's Risk Management personnel and review of medical bills, we noted the City didn't have a formal written utilization review policy and procedure. The City utilized Tristar Managed Care, a third party vendor to perform utilization for its workers' compensation related injury medical bills. However, the City did not perform utilization review for all treatments provided.

Effect:

The City is not in compliance with Title 8 California Code of Regulations § 9792.7. In addition, lack of utilization review could result in the City paying for unnecessary treatments.

Recommendation:

We recommend the City develop, document, and implement policies and procedures for utilization review as specified by Title 8 California Code of Regulations § 9792.7.

Current Status:

Fully Implemented.

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**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 08-30 - Lack of Written Policy and Procedure in Estimating and Reporting Work Injury Claims***

**Criteria:**

Accounting standards require estimated liabilities to be reasonable, objective, and verifiable. An example of the documentation to support the above criteria is as mentioned in Title 8 California Code of Regulations §15300 (b) regarding estimating and reporting work injury claims, the administrator shall set a realistic estimate of future liability for each indemnity claim listed on the self insurer's annual report based on computations which reflect the probable total future cost of compensation and medical benefits due or that can reasonably expected to be due over the life of the claim. Each estimate listed on the self insurer's annual report shall be based on information in possession of the administrator at the ending date of the period of time covered by the annual report. Estimated future liabilities listed on the annual report must represent the probable total future cost of compensation for the injury or disease based on information documented as in possession of the administrator at the ending date of the period of time covered by the annual report. In addition, Title 8 California Code of Regulations §15300 (g) states, "The administrator shall adjust the estimate immediately upon receipt of medical reports, orders of the Appeals Board, or other relevant information that affects the valuation of the claim. Each estimate shall be reviewed no less than annually. Estimates set by a prior administrator shall be reviewed by the current administrator before filing the Self Insurer's Annual Report."

**Condition:**

Upon review of the City's process on estimating future liability for each work injury claim received, we noted the City's lack of documentation to support computation or estimation of future liability for each work injury claim received. There is also lack of documentation to support adjustments made on estimate of future liability. The City increased the estimated amount of the future liability as they needed in order to pay for the claims received. The City did not perform periodic evaluation to adjust the computation or estimation of the future liability when they received updated information. As result, future liabilities of some claims are either over or under estimated.

**Effect:**

The City is not in compliance with Title 8 California Code of Regulations §15300 (b) and (g). In addition, the City's estimated future liability for work injury claims reported on the Self Insurer's Annual Report is not accurately stated.

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures in setting estimates of future liability in accordance with Title 8 California Code of Regulations §15300 (b) as follow:

- Each estimate of future liability shall separately reflect an indemnity component and a medical component. The indemnity component shall include the estimated future cost of all temporary disability, permanent disability, death benefits including burial costs, and vocational rehabilitation including vendor costs. The medical component shall include the estimated future cost of all medical treatment, including costs of medical cost containment programs if those costs are allocated to the particular claim, and the estimated future cost of medical evaluations. Estimates of future liability shall include

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

any increases in compensation in either component reasonably expected to be payable pursuant to Labor Code Sections 132a, 4553, and/or 5814.

- In estimating future permanent disability costs, where there are conflicting permanent disability ratings, the estimate shall be based on the higher rating unless there is sufficient evidence in the claim file to support a lower estimate.
- In estimating future medical costs where the injured worker's injury has not reached maximum medical improvement or permanent and stationary status, the estimate shall be based on projected costs for the total anticipated period of treatment throughout the life of the claim.
- In estimating future medical costs where the injured worker's injury has reached maximum medical improvement or permanent and stationary status, the estimate shall be based on average annual costs over the past three years since the injury reached maximum medical improvement or permanent and stationary status, or a lesser period if three years have not passed since the injury reached maximum medical improvement or permanent and stationary status, projected over the life expectancy of the injured worker. Estimates shall include any additional costs such as medical procedures or surgeries that can reasonably be expected over the life of the claim.
- Estimates based on average past costs shall be increased to include any costs that can reasonably be expected to occur that are not included within the averages. Estimates based on average past costs may be reduced to account for any treatment not reasonably expected to occur in the future based on medical documentation in possession of the administrator.
- Estimates of future medical costs based on average past costs shall not be reduced based on undocumented anticipated reductions in frequency of treatment or to reflect the substitution of treatments with a lower cost than utilized by the injured worker that may be available but that the injured worker is not utilizing. Estimates based on average past costs may be reduced based on reductions in the approved medical fee schedule and based on utilization review, except that reductions in estimates based on utilization review may not be reduced if the reductions are reasonably disputed. Estimates of future liability may be reduced based on the expectation of a third party recovery only in instances where an Order allowing credit has been issued pursuant to Labor Code Section 3861.
- Estimates of lifetime medical care and life pension benefits shall be determined based on the injured worker's life expectancy according to the most recent U.S. Life Expectancy Tables as reported by the U.S. Department of Health and Human Services, Centers for Disease Control and Prevention.
- Estimates of permanent disability shall not be reduced based on apportionment unless the claim file includes documentation supporting apportionment.
- Estimates shall not be reduced to reflect present value of future benefits.

We also recommend the City develop, document, and implement policies and procedures to adjust estimates made on future liability periodically no less than once a year as the City receives updated information that will affect claim valuation. We also recommend the City evaluate all estimates made by previous claim administrator to ensure their accuracy and submit revised Self Insurer's Annual Report to the State.



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**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Current Status:

Not implemented. Please see Finding 09-27.

***Finding 08-31 - Inadequate Recordkeeping on Claim File***

Criteria:

Accounting standards require claim liabilities and expenses to be reasonable, objective, and verifiable. An example of documentation to support above criteria is as mentioned in Title 8 California Code of Regulations §10101 and §15400, the claim file has to adhere to recordkeeping requirements as follows:

1. For work injuries before 1990, the file should contain the following:
  - a. Employers Report of Occupational Injury or Illness, Form No. 5020;
  - b. Every report made to the Administrative Director of the Division of Industrial Accidents; including but not limited to the letter of denial to the employee;
  - c. Doctor's First Report of Occupational Injury or Illness, Form No. 5021;
  - d. Every subsequent relevant medical report;
  - e. All applicable orders of the Workers' Compensation Appeals Board and reports relating thereto;
  - f. A record of payment of compensation benefits as compensation is defined in Section 3207 of the Labor Code, together with a record of the periods covered by disability payments, including a copy of DIA Form 500, Notice of Termination of Benefits.
2. For work injuries between 1990 and 1994, the file should contain the following:
  - a. An employer date stamped copy of the Employee's Claim for Workers' Compensation Benefits, DWC Form 1, or documentation of reasonable attempts to obtain the form.
  - b. Employers Report of Occupational Injury or Illness, DLSR Form 5020, or documentation of reasonable attempts to obtain it.
  - c. Every notice or report sent to the Division of Workers' Compensation.
  - d. A copy of every Doctor's First Report of Occupational Injury or Illness, DLSR Form 5021, or documentation of reasonable attempts to obtain them.
  - e. The original or a copy of every medical report pertaining to the claim, or documentation of reasonable attempts to obtain them.
  - f. All orders or awards of the Workers' Compensation Appeals Board pertaining to the claim.
  - g. A record of payment of compensation.
  - h. A copy of the application(s) for adjudication of claim filed with the Workers' Compensation Appeals Board, if any.
  - i. Copies of all notices sent to the employee pursuant to the requirements of the Benefit Notice Program established by Labor Code Section 138.4 and the notices required by Article 2.6 of Chapter 2 of Part 2 of the Labor Code, commencing with Section 4635.
3. For injuries reported on or after January 1, 2006, each self administering self insurer and claims administrative agency shall maintain a claim file for each indemnity and medical-only claim, including denied claims, and shall ensure that each file is complete and current for each claim. Contents of claim files may be in hard copy, in electronic form, or some

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

combination of hard copy and electronic form. Files maintained in hard copy shall be in chronological order with the most recently dated documents on top, or subdivided into sections such as medical reports, benefit notices, correspondence, claim notes, and vocational rehabilitation. In addition to the contents specified in Title 8, California Code of Regulations, Section 10101.1, each indemnity file shall contain itemized written documentation showing the basis for the calculation of estimated future liability and for each change in estimated future liability for the claim. Files or portions of files maintained in electronic form shall be easily retrievable.

**Condition:**

Upon review of claim files, we noted the claim files were not in order and missing a lot of required documentation, such as medical reports, benefit notice, correspondence, claim notes, vocational rehabilitation, and other required documentation. In addition, some of the claim files could not be located.

**Effect:**

Claim liabilities and expenses could be inaccurately stated. In addition, the City is not in compliance with the recordkeeping requirements as regulated under Title 8 California Code of Regulations §10101 and §15400.

**Recommendation**

We recommend the City develop, document, and implement policies and procedures to ensure its compliance with the recordkeeping requirements as specified by Title 8 California Code of Regulations §10101 and §15400.

**Current Status:**

Not implemented. Please see Finding 09-32.

***Finding 08-32 - Adequate support for payments made needed***

**Criteria:**

Accounting standards require claim expenses to be adequately documented. An example of documentation to support above criteria is as mentioned in Title 8 California Code of Regulations § 10100.1 (z) Record of Payment, "An accurate written or electronic record of all compensation payments in a claim file, including but not limited to:

- The check number, when the check was issued, name of the payee, amount, and for indemnity payments the time period(s) covered by the payment;
- All dates for which salary continuation as defined by Labor Code Section 4650(g) was provided instead of direct indemnity payments; the dates for which salary continuation was authorized; and documentation when applicable that sick leave or other leave credits were restored for any periods for which salary continuation was payable;
- A copy of each bill received which included a medical progress or work status report; and either a copy of each other bill received or documentation of the contents of that bill showing the date and description of the service provided, provider's name, amount billed, date the claims administrator received the bill, and date and amount paid."

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**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Condition:

During our review of general liability and workers' compensation claim payments, we noted the following:

- Some invoices do not have any approval for payment.
- Payments were made to the wrong vendor.
- Duplicate payments were made to the right vendor.
- No invoice or other relevant documentation was available for payments made. For example, there was no medical report found in claimant file which incurred multiple payments for medical reports.
- No earning statement and medical report was available in the file to support the calculation of temporary disability and permanent disability payment.
- Discrepancies between payment information recorded in the database and written payment documentation. For example, voided payments were not voided in the database. Another example, check numbers for general liability payments in the database were different from the check numbers on the cancelled checks.
- Some cancelled checks do not have any endorsement on the back of the checks.
- Bill review for medical bills were not used consistently.
- Payments were charged to the wrong claim.

Effect:

The City is not in compliance with Title 8 California Code of Regulations § 10100.1 (z). The City could have overpaid some vendors due to lack of bill reviewer and duplicate payments made. The City's payments and liabilities amount are inaccurately stated due to inaccurate information in the database. In addition, the City has increased risks of abuse and fraud due to lack of payment approval.

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure all payments are properly approved, charged to the right claim, reviewed, and supported as specified by Title 8 California Code of Regulations § 10100.1 (z). We also recommend the City have all medical bills reviewed to reduce risks of overpayment and duplicate payment. In addition, we recommend the City periodically reconcile record of payments made per database to the bank statement and the general ledger to ensure the accuracy of payments disbursed.

Current Status:

Fully Implemented

***Finding 08-33 – Reasonable and Consistent Support for Workers Compensation Charges to Other Departments Needed***

Criteria:

Accounting standards require costs to be allocated on a reasonable and consistent basis. All costs and other data used to distribute the costs should be supported by formal accounting and other records.

Condition:

The City automatically charged other departments based on workers compensation rates established

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**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

every year. For fiscal year 2007-2008, the rates according to job classification are as follow:

- Manual and fire 25.86%
- Clerical 2.29%
- Non manual 7.71%

There was no basis for setting the above rates. In addition, the City did not use the rates correctly. For example, manual and fire rate, which is higher than clerical rate, was applied to some management employees.

Effect:

Some departments may incur higher or lower workers compensation costs than they should because of inaccurate rates and inaccurate usage of rates.

Recommendation:

We recommend the City develop, document, and implement policies and procedures to:

- Set the workers compensation rates
- Ensure rate is applied accurately according to employees' job classifications

Current Status:

Not implemented. Please see Finding 09-33.

***Finding 08-34 - Inadequate Segregation of Duties in General Liability and Workers' Compensation Process***

Criteria:

Duties should be divided, or segregated, among different people to reduce the risk of error or inappropriate actions. In addition, according to the Standards for Internal Control in the Federal Government issued by the United States Government Accountability Office, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Condition:

During our review of general liability and workers compensation claims, we noted there was no adequate segregation of duties in managing the claims. The Risk Management handles the entire claim process. For workers compensation, the Risk Management is responsible for receiving, recording, adjudicating, investigating, setting estimates, and paying the claims. Only if claims involve litigation would the claims go to the City Attorney and outside legal counsel for further process. For general liability, the claim is received by the City Controller and submitted to the Risk Management for processing. The Risk Management is responsible for adjudicating and paying the small claims less than \$5,000. Large claim amounts and litigation-related general liability claims process, except for payment, is handled by the City Attorney.

The Risk Management also prints and distributes its own checks using Valley Oak System (VOS) without going through the City's regular cash disbursement cycle. Printed checks are given to the City Controller and City Treasurer for signatures without any supporting documentation. There

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

was no supervision or review by other departments, like City Controller and City Treasurer in claim payment process.

**Effect:**

No segregation of duties in general liability and workers compensation process results in greater error, abuse, and fraud risks.

**Recommendation:**

We recommend the City segregate the duties of receiving, recording, adjudicating, investigating, setting estimates, and paying the claims between the Risk Management and the City Controller's Office. The City Controller's Office should be in charge of payment processing, printing, and distributing the checks. We also recommend the City create a committee to oversee general liability and workers compensation claims process.

**Current Status:**

Not implemented. Please see Finding 09-28.

***Finding 08-35 - Noncompliance with the City's Procurement Policies and Procedures***

**Criteria:**

According to the City Council Resolution No. 22,271 adopted on April 10, 2007, the purchase order in an amount greater than \$25,000 requires adoption of City Council Resolution prior to being executed. In addition, the following purchase order procedures are now in effect:

- Purchase Orders for the same vendor, for the acquisition of related goods/services, and occurring in the same fiscal year shall be treated as one combined Purchase Order for purpose of determining if the \$25,000 threshold is met.
- A new addition to an existing Purchase Order shall be combined with the original Purchase Order and any previous additions to the Purchase Order for purpose of determining if the \$25,000 threshold is met.
- Purchase Orders will not be split in order to avoid the \$25,000 threshold, including splits near the cutoff between fiscal years.

**Condition:**

The Risk Management paid Tristar Managed Care \$44,516 during fiscal year 2007-2008 to perform bill and utilization review. However, there is no council resolution approving payment to this vendor. This situation occurred because the Risk Management processes payments through its own system, Valley Oak System (VOS). In addition, the Risk Management does not require a new vendor to submit W9 before processing the payment.

**Effect:**

The City is not in compliance with its own procurement policies and procedures. The situation above could also lead to creation of and payment to fraudulent vendors.

**Recommendation:**

We recommend the City to implement its procurement policies and procedures in the Risk Management.

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**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Current Status:**

Not implemented. Please see Finding 09-24.

***Finding 08-36 - Weaknesses of the Valley Oak System (VOS)***

**Criteria:**

Accounting standards require claim liabilities and expenses to be reasonable, objective, and verifiable.

**Condition:**

The City uses the Valley Oak System (VOS) to administer its general liability and workers compensation claims. During our interview with the Risk Management personnel and review of claims, we noted some weaknesses of the VOS as follow:

- VOS could not identify duplicate claims entered unless the claim has the exact same date as the one previously entered.
- VOS allows the claims administrator to increase reserve amount and make payments on closed claims.
- No automatic interface between VOS and the City's general ledger.

**Effect:**

Information recorded in VOS could be inaccurate.

**Recommendation:**

We recommend the City replace VOS with a better claim management system to ensure accurate information recorded. We also recommend the City implement automatic interface between VOS and the City's general ledger. In the case automatic interface could not be performed, the Risk Management and the City Controller's Office should periodically reconcile records between VOS and the City's general ledger.

**Current Status:**

Not implemented. Please see Finding 09-29.

***Finding 08-37 - No Incurred But Not Reported (IBNR) Estimate***

**Criteria:**

The claims are usually settled at an amount greater than the original amount estimated by the claim adjuster. Therefore, most of the reported claim values at a given valuation date will not reflect the ultimate value of the claim costs. This difference between the reported claim value at a given evaluation date and the ultimate claim value is called Incurred But Not Reported ("IBNR"). To estimate IBNR, the City could use various methodologies, such as actuarial analysis, historical analysis of claim settlement amount, and other methods.

**Condition:**

The City could not estimate incurred but not reported claims. This happened because the City has no actuarial analysis completed and could not perform historical analysis of claim settlement due to inaccurate and incomplete information. The City does not have claim information prior to the year 2000 in the current system (VOS). Prior to using the VOS, the City used the DOS based

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**Status of Prior Year Findings and Questioned Costs (Continued)**  
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claim management system. Information in the old system was not transferred to the new system. In addition, the City's information is inaccurate due to data entry error and inadequate segregation of duties as mentioned in Finding 08-32 and 08-34.

Effect:

Without IBNR, the City's liability for general liability and workers' compensation as of June 30, 2008 could be understated.

Recommendation:

We recommend the City conduct an actuarial study to estimate IBNR. We also recommend the City develop, document, and implement policies and procedures to ensure information recorded in the system is accurate and complete.

Current Status:

Not implemented. Please see Finding 09-30.

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**Status of Prior Year Federal Awards Findings**

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***Finding 08-38 - Noncompliance in performance reporting***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

Criteria:

Pursuant to OMB Circular A-133 Compliance Supplement Part 4 Department of Housing and Urban Development CFDA# 14.239 performance reporting compliance requirements, as the prime recipient, the City is required to submit HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)* – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

Condition:

The City received \$2,242,292 from Department of Housing and Urban Development (HUD) for HOME program for fiscal year ended June 30, 2008. Funds received were used to fund the first time homebuyer program and the residential rehabilitation program. However, the City did not submit the required HUD 60002, Section 3 Summary Report to HUD.

Effect:

Failure to submit the report resulted in noncompliance with grant performance reporting requirements.

Questioned Costs:

Not applicable

Systematic or Isolated:

Systematic

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure the required HUD 60002, Section 3 Summary Report is submitted to HUD accurately and timely.

**Current Status:**

Not implemented. Please see Finding 09-34.

***Finding 08-39 - Lack of completion information in program disbursement and information system***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

Pursuant to 24 CFR §92.502 (d) (1), "Complete project completion information must be entered into the disbursement and information system, or otherwise provided, within 120 days of the final project drawdown. If satisfactory project completion information is not provided, HUD may suspend further project set-ups or take other corrective actions."

**Condition:**

Upon review of U.S. Department of Housing and Urban Development Office of Community Planning and Development's Integrated Disbursement and Information System Status of HOME Activities, we noted many activities had final disbursements as early as 1997. However, up to now, the activities have no completion information.

**Effect:**

The City was not in compliance to 24 CFR §92.502 (d) (1). In addition, the City may be suspended from further project set-ups and subjected to other corrective actions as prescribed by HUD.

**Questioned Costs:**

Not applicable

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to enter complete project completion information into the disbursement and information system accurately and timely within 120 days of the final project drawdown.

**Current Status:**

Fully Implemented



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**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 08-40 - Noncompliance with the Allowable Costs/Cost Principles Requirement***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

According to Appendix B Section 8.h.4 of 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, (OMB Circular A-87), "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation."

**Condition:**

We tested personnel costs in the amount of \$21,306 that were charged to HOME program. We noted that certain employees worked on multiple activities or cost objectives other than HOME program. However, personnel costs allocated to the HOME program were not supported by personnel activity reports or equivalent documentation.

**Effect:**

The City's personnel costs distribution is not supported by personnel activity reports or equivalent documentation; therefore, the City is not in compliance with the allowable costs/costs principles requirement

**Questioned Costs:**

\$21,306

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure all personnel costs distributed to the Federal award programs be supported by personnel activity reports or equivalent documentation.

**Current Status:**

Not Implemented. See Finding 09-37.

***Finding 08-41 - Noncompliance with the Cash Management Principles Requirement***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

Pursuant to 24 CFR §92.502 (c) (2) and (3), "HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the Home Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.). HOME funds in the local account of the Home Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury account."

**Condition:**

During our review of revenues, expenses, and program income received related to HOME programs, we noted the City drew down \$1,580,469 from HUD and spent the same amount for the fiscal year ended June 30, 2008. The City also received \$491,655 program income for the same period. The program income received was not reported to HUD. Since the City had undisbursed funds in the local account of the Home Investment Trust Fund, the City over drew \$491,655. Interest earned from additional funds drawn was neither reported nor remitted to the United States Treasury account.

**Effect:**

The City was not in compliance to the program disbursement requirements.

**Questioned Costs:**

Approximately \$35,093. For details, please refer to Finding 08-42 regarding no interest income allocation.

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure HOME funds in the local account of the Home Investment Trust Fund be disbursed before requests are made for HOME funds in the United States Treasury account. We also recommend the City develop, document, and implement policies and procedures to ensure HOME funds drawn from the United States Treasury account are expended for eligible costs within 15 days. If the City failed to expend the fund within 15 days, the City should report and remit interest earned in excess of \$100 to the United States of Treasury. In addition, the City should report program income received to HUD accurately and timely.

**Current Status:**

Fully Implemented

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 08-42 - No Interest Income Allocation***

**CFDA Title and Number:** HOME Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

Pursuant to OMB Circular A-133 Compliance Supplement Part 3 Section C – Cash Management compliance requirement, interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses.

**Condition:**

The HOME fund is commingled with other funds in the City's general account. During our review of interest income reasonableness, we noted the City did not allocate interest income to HOME fund because cash balances were understated. In other words, the actual cash balances of the HOME fund were higher than the book balances. The City borrowed HOME funds to subsidize the cash deficits of other City funds. As of June 30, 2008, the City had borrowed \$2,290,496 from the HOME fund. For fiscal year 2007-2008, the HOME fund was not credited with interest income. Based on reports provided by LAIF, we noted that the average interest rate for the year was 4.38%. We estimate the interest income for the year should be \$35,093 based on the average cash balances plus interfund receivables (due from other funds) per the general ledger (\$799,930 average balance @ the LAIF average interest rate of 4.3% for the year).

**Effect:**

The City under allocated interest income and was not in compliance with the cash management requirements.

**Questioned Costs:**

Approximately \$35,093

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure interest income received is allocated equitably to the HOME fund.

**Current Status:**

Fully Implemented

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 08-43 - Noncompliance with Housing Quality Standards Compliance Requirement***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

Pursuant to OMB Circular A-133 Compliance Supplement Part 4 Department of Housing and Urban Development CFDA# 14.239 special tests and provisions – housing quality standards compliance requirements, during the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every three years for projects containing 1 to 4 units, (b) every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.251, 92.252, and 92.504(b)).

**Condition:**

The HOME fund was used to assist several rental housing units. However, the City never performed on-site inspections on HOME assisted rental housing to determine their compliance with property standards. The City also did not require the above mentioned property owners to submit information related to their property standards.

**Effect:**

The City was not in compliance with the housing quality standards special tests and provisions compliance requirement.

**Questioned Costs:**

Approximately \$1,589,403, which is loan amounts provided to CHDOs for development of affordable housings.

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to perform on-site inspections on HOME assisted rental housing as specified by 24CFR section 92.251. We also recommend the City develop, document, and implement policies and procedures to assure property owners submit their property standards report annually.

**Current Status:**

Fully Implemented

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

***Finding 08-44 - Noncompliance with Period of Affordability Compliance Requirement***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

Pursuant to 24 CFR §92.252 (e) *Periods of Affordability*, "The HOME-assisted units must meet the affordability requirements for not less than the applicable period specified in the following table, beginning after project completion.

| <b>Rental Housing Activity</b>   | <b>Minimum period of affordability in years</b> |
|--|---|
| Rehabilitation or acquisition of existing housing per unit amount of HOME funds:<br>Under \$15,000 | 5   |
| \$15,000 to \$40,000   | 10  |
| Over \$40,000 or rehabilitation involving refinancing  | 15  |
| New Construction or acquisition of newly constructed housing                                       | 20  |

In addition, pursuant to 24 CFR §92.252 (h) *Tenant Income*, "The income of each tenant must be determined initially in accordance with Sec. 92.203(a)(1)(i). In addition, each year during the period of affordability the project owner must re-examine each tenant's annual income in accordance with one of the options in Sec. 92.203 selected by the participating jurisdiction. An owner of a multifamily project with an affordability period of 10 years or more who re-examines tenant's annual income through a statement and certification in accordance with Sec. 92.203(a)(1)(ii), must examine the income of each tenant, in accordance with Sec. 92.203(a)(1)(i), every sixth year of the affordability period. Otherwise, an owner who accepts the tenant's statement and certification in accordance with Sec. 92.203(a)(1)(ii) is not required to examine the income of tenants in multifamily or single-family projects unless there is evidence that the tenant's written statement failed to completely and accurately state information about the family's size or income." Furthermore, pursuant to 24 CFR §92.508 (3) (vii), the City should also maintain "Records demonstrating that each rental housing project meets the affordability and income targeting requirements of Sec. 92.252 for the required period. Records must be kept for each family assisted."

**Condition:**

The City imposed period of affordability covenants on HOME assisted rental housing. However, the City neither monitored the compliance of HOME assisted rental housing to period of affordability covenants nor maintained records related to the period of affordability compliance requirements. The City also has not required property owners to submit annual tenant income certifications to the City.

**Effect:**

The City is not in compliance with period of affordability compliance requirement. The City could

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

be required to pay any HOME funds invested in housing that is determined to not meet the affordability requirements for the period specified above.

**Questioned Costs:**

Approximately \$1,589,403, which is loan amounts provided to CHDOs for development of affordable housings.

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure all HOME assisted rental housing property owners submit the annual tenant income certifications. We also recommend the City perform on-site inspections to verify the accuracy of certifications provided by the property owners. These records should be maintained for five years in accordance with 24 CFR §92.508 (7)(c) (1).

**Current Status:**

Not implemented. Please see Finding 09-35.

***Finding 08-45 - Noncompliance with recordkeeping compliance requirement***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

Pursuant to 24 CFR §92.508 (7)(c), "All records pertaining to each fiscal year of HOME funds must be retained for the most recent five years, except as provided below:

- For rental housing projects, records may be retained for five years after the project completion date; except that records of individual tenant income verifications, project rents and project inspections must be retained for the most recent five year period, until five years after the affordability period terminates.
- For homeownership housing projects, records may be retained for five years after the project completion date, except for documents imposing recapture/resale restrictions which must be retained for five years after the affordability period terminates.
- For tenant-based rental assistance projects, records must be retained for five years after the period of rental assistance terminates.
- Written agreements must be retained for five years after the agreement terminates
- Records covering displacements and acquisition must be retained for five years after the date by which all persons displaced from the property and all persons whose property is acquired for the project have received the final payment to which they are entitled in accordance with Sec. 92.353.
- If any litigation, claim, negotiation, audit, monitoring, inspection or other action has been started before the expiration of the required record retention period records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the required period, whichever is later.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Condition:**

The City could not locate almost all written agreements executed prior to 2006.

**Effect:**

The City is not in compliance with recordkeeping compliance requirement. The City could not substantiate outstanding loans receivable balances and could not identify borrowers with outstanding loans with the City.

**Questioned Costs:**

The City used funds for eligible activities. Therefore, there is no questioned cost.

**Systematic or Isolated:**

Systematic

**Recommendation:**

We recommend the City develop, document, and implement policies and procedures to ensure all written agreements and other records related to HOME funds are retained for periods as specified by 24 CFR §92.508 (7)(c).

**Current Status:**

Fully Implemented

***Finding 08-46 - Noncompliance with CHDO Requirement***

|                               |  |
|-------------------------------|--|
| <b>CFDA Title and Number:</b> | Home Investment Partnerships Program #14.239     |
| <b>Federal Agency:</b>        | U.S. Department of Housing and Urban Development |
| <b>Award Year:</b>            | June 30, 2008                                    |

**Criteria:**

Pursuant to 24 CFR §92.300 (a) (1), "Within 24 months after HUD notifies the participating jurisdiction of HUD's execution of the Home Investment Partnerships Agreement, the participating jurisdiction must reserve not less than 15 percent of the HOME allocation for investment only in housing to be developed, sponsored, or owned by community housing development organizations..."

**Condition:**

The City gave grants to the Long Term Care, a qualified community housing development organization (CHDO) under the City of Compton, total of \$855,000 for land acquisitions: \$513,000 for fiscal year 2007 and \$342,000 for fiscal year 2008. The Long Term Care had problems with its tax exempt status because it did not provide any contribution. Therefore, the City withheld \$342,000 that was scheduled to be provided in fiscal year ended June 30, 2008. Due to this circumstance above, the City did not meet its 15 percent CHDO set aside requirement for the fiscal year ended June 30, 2008. The City's 15% set aside requirement for the year is \$336,344 (15% of \$2,242,292 revenue received).

The City has written policies and procedures to select a qualified CHDO. However, there is no documentation available documenting the Long Term Care selection procedure as a qualified CHDO under the City of Compton.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Effect:

The City is not in compliance with 15 percent CHDO set aside earmarking compliance requirement.

Questioned Costs:

Not applicable

Systematic or Isolated:

Isolated

Recommendation:

We recommend the City document and implement policies and procedures taken to ensure the CHDO is a qualified CHDO before providing grants or loans. We also recommend the City attempt to identify other CHDOs that are capable of providing qualifying services and provide them with grants or loans to carry out elements of the jurisdiction's approved consolidated plan.

Current Status:

Fully Implemented

***Finding 08-47 - Noncompliance and Inaccuracy in Program Income Reporting***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

Criteria:

Pursuant to 24 CFR 92.2, program income is gross income received by the participating jurisdiction, State recipient, or a subrecipient directly generated from the use of HOME funds or matching contributions.

Condition:

As of June 30, 2008, the City reported receipt of program income \$3,155,147 to HUD through program disbursement and information system (IDIS). However, the City's financial records reported receipt of program income \$3,829,138 as of June 30, 2008. This difference was due to the City not reporting receipt of program income to HUD since fiscal year 2007 and inaccurate receipt of program income recorded in the City's general ledger and IDIS. Some of program income recorded in the City's financial records was not related to HOME funds, but related to either the City's low or moderate income housing funds or CDBG funds.

Effect:

Failure to report receipt of program income resulted in noncompliance with program income reporting requirements. The City could be required to repay HOME funds for excess disbursements received because the City should use HOME funds in the local account prior requesting reimbursements.

Questioned Costs:

Under reported program income as of June 30, 2008 approximately \$665,091



**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure program income is accurately recorded in the City's general ledger and timely reported to HUD upon receipt.

Current Status:

Fully Implemented

***Finding 08-48 - Incomplete Project Set-up in Program Disbursement and Information System***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

Criteria:

Pursuant to Home Investment Partnerships Program Final Rule, the City is required to complete project set up in the program disbursement and information system as follows:

- After the participating jurisdiction executes the Home Investment Partnership Agreement, submits the applicable banking and security documents, complies with the environmental requirements under 24 CFR Part 58 for release of funds and commits funds to a specific local project, the participating jurisdiction may identify (set up) specific investments in the disbursement and information system. Investments that require the set-up of projects in the system are the acquisition, new construction, or rehabilitation of housing, and the provision of tenant-based rental assistance. The participating jurisdiction is required to enter complete project set-up information at the time of project set-up.
- If the project set-up information is not completed within 20 days of the project set-up call, the project may be canceled by the system. In addition, a project which has been committed in the system for 12 months without an initial disbursement of funds may be canceled by the system.

Condition:

Upon review of project activity reported in the program disbursement and information system (IDIS), we noted the City hasn't reported all projects. As a result, the City has not committed all program income. The City has \$914,095 uncommitted program income as of June 30, 2008. Therefore, the City could not request disbursements from HOME funds in the United States Treasury account.

Effect:

The City was not in compliance with project set-up requirements. In addition, the City has to use its own funds to finance the projects because the City could not request disbursements from HOME funds in the United States Treasury account.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Questioned Costs:

Not applicable

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to enter complete project set-up information in IDIS accurately and timely.

Current Status:

Fully Implemented

*Finding 08-49 - Lack of Management in the HOME Program Day to Day Operations*

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

Criteria:

Pursuant to 24 CFR 92.504, the participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are use in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. Furthermore, pursuant to 24 CFR 92, HOME-assisted housing is subjected to period of affordability covenant, which ranges from 5 to 20 years depending on the amount of loans or assistance received. If HOME-assisted housing failed to comply with affordability requirement or terminated prior to completion, HOME funds should be repaid except for loans or assistances provided to community housing development organizations (CHDOs). Repayment could be waived, in whole or in part, if there are impediments to project development that the participating jurisdiction determines are reasonable beyond the control of the CHDOs.

Condition:

The City used HOME funds to provide loans or assistance to develop and support affordable rental housing and homeownership affordability through first time homebuyer and residential rehabilitation programs. In addition, the City also provided loans or assistance to community housing development organizations (CHDOs) for development of affordable housing. These loans and assistance provided are subject to affordability requirements and have various terms. Some of the loans are forgivable after the period of affordability elapses. Others are to be repaid with interest.

The City's financial records from January 1, 1999 to June 30, 2008 reported loans or assistance provided in the amount of \$4,885,089 to various individuals and in the amount of \$1,589,403 to CHDOs. There was not a complete financial record, loan agreement, or other documentation available for loans or assistance provided to various individuals or CHDOs prior to January 1, 1999. As a result, the City does not know the outstanding loan balances prior to January 1, 1999. The City also did not manage loan repayment, interest collection, and monitor performance such as the affordability requirement in accordance with loan or assistance terms specified in written agreements. This also resulted in under receipt of program income from loan repayment and interest collection.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Effect:

The City did not fulfill its responsibility managing day to day HOME program operations. HUD could reduce the HOME funds and ask the City to repay the HOME funds by the amount of any expenditure that was not in accordance with the HOME requirement.

Questioned Costs:

Approximately \$1,589,403, which is loan amounts provided to CHDOs for development of affordable housings.

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to manage its day to day operation of the HOME program in accordance with 24 CFR 92, which may include the following:

- Adequate recordkeeping system and procedures
- Systems to manage disbursement of loans and other assistance provided
- Performance monitoring such as the affordability requirement, Davis Bacon Act requirement, and other applicable performance requirements
- Documentation of the determination to waive the repayment requirement for loans or assistance provided to CHDOs
- Other required day to day HOME operations

Current Status:

Partially Implemented. See Finding 09-35.

***Finding 08-50 - Noncompliance in Subrecipient Monitoring***

**CFDA Title and Number:** Home Investment Partnerships Program #14.239  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

Criteria:

Pursuant to OMB Circular No. A-133 Section .210 (b), "Characteristics indicative of a Federal award received by a subrecipient are when the organization:

- (1) Determines who is eligible to receive what Federal financial assistance;
- (2) Has its performance measured against whether the objectives of the Federal program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable Federal program compliance requirements; and
- (5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity."

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

In addition, pursuant to OMB Circular No. A-133 Compliance Supplement Part 3 Compliance Requirement M – Subrecipient Monitoring, “A pass through entity has the responsibility to monitor subrecipient during award. Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.”

Condition:

The City provides assistance or loans to qualified Community Housing Development and Organizations (CHDOs) for development of affordable housings. Upon review of loan agreements, these CHDOs have responsibility to adhere to applicable Federal program compliance requirements, such as Davis Bacon Act and affordability covenant requirement. Therefore, these CHDOs are considered subrecipients. The City was not aware of the classification of CHDOs as its subrecipients. As a result, the City did not perform any subrecipient monitoring.

Effect:

The City is not in compliance with OMB Circular No. A-133 Compliance Supplement Part 3 Compliance Requirement M - Subrecipient Monitoring.

Questioned Costs:

Not applicable

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to identify and monitor subrecipients throughout the year.

Current Status:

Partially Implemented. See Finding 09-35.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Findings related to Section 8 Housing Choice Voucher:**

***Finding 08-51 - Inaccurate Financial Management Systems Report***

**CFDA Title and Number:** Section 8 Housing Choice Voucher #14.871  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

**Criteria:**

Pursuant to 24 CFR § 85.20 (b) (1) standards for financial management systems, the financial management systems of other grantees and subgrantees must meet the defined standards in the following areas:

- *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

**Condition:**

Public Housing Authority (PHA) is required to report the usage of housing assistance payment vouchers and administrative expenses to Housing and Urban Development (HUD) quarterly. There are two types of housing payment vouchers: portability and in-house. For portability, the PHA will seek reimbursements for other PHA(s). For in-house, the PHA will obtain allocations from HUD for in-house housing payment vouchers used. Upon review or analysis data submitted by PHA, HUD will allocate the funds to PHA accordingly. The City's Local Housing Authority (LHA), a PHA reported to HUD quarterly the usage of housing assistance payment vouchers and administrative expenses through Voucher Management System (VMS). During our review, we noted that the quarterly reports to HUD were not agreed to the City's financial records. For fiscal year ended June 30, 2008, the City's LHA reported to HUD \$2,974,852 expenditures incurred for portability and \$5,821,185 for in-house housing assistance payment vouchers. However, the City's financial records reported \$3,153,434 expenditures incurred for portability and \$5,800,194 for in-house housing assistance payment vouchers.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

The discrepancies noted above were due, in part, to the City's LHA preparing the reports based on inaccurate housing assistance payment vouchers submitted to the City's Controller for payment processing. Another reason for discrepancies was the City's Controller sometimes processed payment not in accordance to the vouchers submitted due to data entry error. As a result of the error in reporting, the City's LHA didn't get right amounts of allocations from HUD for in-house housing assistance payments incurred. The City received \$5,271,616 allocations from HUD as of June 30, 2008.

Effect:

Failure to submit the reports accurately resulted in incorrect allocation from HUD for in-house housing assistance payments incurred and incorrect reimbursement amounts from other LHAs for portability housing assistance payments incurred.

Questioned Costs:

Cannot be determined because of the discrepancies between payments per general ledger and payments per the City's LHA.

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure the accuracy of the usage of housing assistance payment vouchers and administrative expenses incurred reported to HUD. We also recommend the City to submit the revised reports to HUD.

Current Status:

Not implemented. Please see Finding 09-38.

***Finding 08-52 - Inaccurate Rent Payments***

**CFDA Title and Number:** Section 8 Housing Choice Voucher #14.871  
**Federal Agency:** U.S. Department of Housing and Urban Development  
**Award Year:** June 30, 2008

Criteria:

Pursuant to OMB Circular A-133 Compliance Supplement Part 4, Department of Housing and Urban Development CFDA# 14.219 eligibility compliance requirements, a Public Housing Authority (PHA) should determine the total rent payment in accordance with 24 CFR Section 5.613.

Condition:

For fiscal year ended June 30, 2008, the total portability housing assistance payment vouchers reported was \$3,153,434. However, the total reimbursement received from other local housing authorities amounted to \$2,552,003 as of June 30, 2008. The difference \$422,849 consisted of:

1. \$275,000 correction of a prior year duplicate recording of revenue
2. \$147,849 differences due to the following:
  - a. Inaccurate participants' classifications as in-house or portability housing assistance payments

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

- b. Payments to incorrect landlords
- c. Inaccurate payment amounts
- d. Some payments due to landlords were not made

The errors and misclassifications noted above were due to data entry error in the City's Controller's Office (Controller) and Local Housing Authority (LHA). Sometimes the City's LHA did not prepare accurate housing assistance payment vouchers. Sometimes the City's Controller did not update housing assistance payments in the payment systems. We noted there was lack of reconciliation performed between data entered by the Controller and LHA data submitted for entry. In addition, we noted that the City's LHA did not maintain a system to track housing payment vouchers paid or requests for reimbursement due from other local housing authorities.

Effect:

The City's LHA could not recover or seek reimbursements approximately \$140,000 from other local housing authorities or HUD due to inaccurate participant classifications and rent payments made.

Questioned Costs:

Not applicable

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City's LHA develop, document, and implement policies and procedures to classify participants accurately, pay rents accurately, and track the receipts of requests for reimbursement to other local housing authorities. The City's LHA and Controller should develop an automatic system to update rent payments as changes occur, process rent payments, track billing and payments received from other LHAs for portability housing assistance payments incurred. In addition, the City's LHA should provide the Controller the control total for housing assistance payments submitted to ensure all updates have been made on both departments' systems.

Current Status:

Not implemented. Please see Finding 09-39.

**Findings related to Single Audit – General:**

***Finding 08-53 - Weakness Noted in SEFA Preparation***

Criteria:

Pursuant to OMB Circular No. A-133 Subpart C Section .300 (a) and (d), the City has responsibility to:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § \_\_\_.310.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

Condition:

Upon review of Schedule of Expenditures of Federal Award (SEFA) provided by the City, we noted that the City did not use accurate award identification number. The City used prior year's award identification numbers. We also noted federal expenditures were not accurately reported in the SEFA. The City included matching and non-reimbursable expenditures as federal expenditures in the SEFA. In addition, we noted the City did not report unpaid loan balances in the SEFA or notes to the SEFA.

Effect:

Failure to prepare accurate and complete SEFA resulted in a non-compliance with OMB Circular No. A-133 Subpart C Section .300 (a) and (d).

Questioned Costs:

Not applicable

Systematic or Isolated:

Systematic

Recommendation:

We recommend the City develop, document, and implement policies and procedures to ensure the SEFA is prepared accurately and completely in accordance with OMB Circular No. A-133 Subpart C Section .300 (a) and (d).

Current Status:

Not implemented. Please see Finding 09-40.

***Finding 07-01 - Year-End Closing***

We noted several accounts whose balance had not been evaluated as part of year end closing procedures resulting in several proposed adjusting journal entries related to loans receivable, water and rubbish receivables, several accrued liabilities, depreciation for capital assets, and a claims payable adjustment. In addition, we noted two adjustments made to fund balance for accounts payable invoices related to expenditures of the prior year. The invoices were found after the prior year financial statements had been issued.

We also noted estimated liabilities for self-insurance claims are not reconciled between the estimates provided by City's legal counsel and the Claims Summary Report prepared by the Risk Management Department.

Recommendation:

We recommend the City Controller complete the analysis of the general ledger, such as accounts payable and accounts receivable, prior to closing the general ledger to assure financial statement account balances are accurately reported. In addition, audit adjustments should be reduced by reviewing reports and making adjustments prior to finalizing reports for year. We also recommend the City implement procedures to ensure that all adjustments to fund balance are appropriate to the financial statements. We understand the City Controller's office has prepared a draft policy outlining the policies and procedures for year-end closing. We encourage the City Controller's office to complete the policy manual.



**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

We also recommend that reconciliation be performed of estimated liabilities for self-insurance claims as determined by the City's legal counsel to the estimated liability as reported on the Claims Summary Report to assure fair presentation in the City's financial statements.

Current Status:  
Fully Implemented

***Finding 07-02 - Accounting Policies and Procedures Manual***

The City does not have comprehensive policies and procedures documented for accounting functions.

Recommendation:  
We recommend the development and maintenance of a policies and procedures manual for all accounting processes. This will ensure that similar transactions are treated consistently and that only established accounting principles are followed. A well-developed manual will also aid in the training of new employees within the Controller's Office and the Treasurer's Office. We understand the City Controller's office is in the process of updating its financial management policies and procedures manual. We encourage the City Controller's office to complete the policy and procedures manual.

Current Status:  
Fully Implemented

***Finding 07-03 Treasurer's Investment Report***

During our testing of cash and investments we noted the following conditions:

- Investment balances on the June 30, 2007 Investment Report did not tie to the General Ledger at June 30, 2007.
- There is no procedure in place to ensure that investment transactions are reviewed and approved.

Recommendation:  
We recommend:

- Investments be reconciled to the general ledger on a monthly basis so that the necessary adjustments are made in a timely manner.
- The City implement procedures, which may include the use of authorization forms, to ensure that all investment transactions are reviewed and approved by a second authority, thus ensuring compliance with the investment policy.

Current Year Management Response:  
Investment balances in the Treasurer's Investment Report were reconciled on an item-by-item basis to the specific individual accounts in the General Ledger. However, we have commenced a monthly global reconciliation of the total investment in the Investment Report with the totals of the various General Ledger balances in compliance with the Auditors' recommendation.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

The City Council reviews the Treasurer's Investment Report on a monthly basis as part of the Council's oversight procedures over the City's Investments.

**Current Status:**

Not implemented. Please see Finding 08-05.

***07-07 - Payroll Process***

Personnel changes, including salary rates, can be initiated by the same person who inputs payroll information with no review or approval required. We also noted the payroll posting to the general ledger is not reviewed.

**Recommendation:**

We recommend that:

- The duties of processing payroll and making changes to personnel files should be segregated to ensure adequate internal controls are in place over amounts paid.
- The City develops a procedure in which the posting of payroll to the general ledger is reviewed in order to ensure the accuracy of the posting.

**Current Status:**

Fully Implemented

***Finding 07-08 – Utility Billing***

During our internal control testing over the utility billing transaction cycle, we noted the following conditions:

- During the review of the internal controls over the City's Utility Billing Process, we noted the Utility Billing System (Springbrook) and the General Ledger (IFAS) do not automatically interface creating potential errors in coding and unrecorded revenue.
- A reconciliation between the billing register and cash receipt register is not performed to ensure timely and ultimate collection of utility charges.
- The billing function performed by the Utility Department is not reviewed by the Controller's Office until year end. In addition, payments for utility billing are not reconciled with the amounts billed.
- There is no review and clean-up of the utility deposit accounts to ensure that they are for active accounts. By not reconciling and adjusting the deposits, the City may not be recognizing all potential revenue in the general ledger.

**Recommendation:**

We recommend the City develop an electronic interface between the Springbrook and IFAS Systems to ensure that revenue is properly recorded in the General Ledger. We further recommend that a reconciliation between the billing register and cash receipt register be performed on a monthly basis to ensure timely and ultimate collection of utility charges. We also recommend that the City take necessary steps to implement a procedure for the periodic review and clean-up of the utility deposits.

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Current Status:**

Partially Implemented The City's Utility Billing System (Springbrook) is still not automatically interfaced with the General Ledger (IFAS). See Finding 09-04.

***Finding 07-09 – Redevelopment Agency State Controller's Report***

During our review of the State Controller's Report (SCR) filed for 2006, we noted that the total assets, revenues and expenditures for the Debt Service fund and total assets, liabilities and revenues for the Capital Projects fund on the 2006 SCR do not agree to the June 30, 2006 Agency financial statements. We understand this resulted from the 2006 SCR being prepared prior to the release of the June 30, 2006 Agency financial statements. In addition, during our review of the HCD Schedules, we noted that activity related to housing assets did not agree to CRA financial records.

**Recommendation:**

We recommend, that prior to submission, the Agency compare the State Controller's Report and the HCD schedules to the Agency Financial Statements and other related financial information, respectively, to ensure the amounts agree.

**Current Status:**

Partially implemented. Please see "Finding 08-25 and 09-23 in the Community Redevelopment Agency of the City of Compton's report".

***Finding 07-10 - Interfund Charges for Services***

We noted the City records interfund revenue and expenses related to charges for services which are approved in the City's annual operating budget. However, there is no documentation for the basis of the amounts being budgeted.

**Recommendation:**

We recommend the City develop policies and procedures that identify the direct charges to be made as well as develop a cost allocation plan related to internal service charges.

**Current Status:**

Not implemented. Please see Finding 08-06 and 09-26.

***Finding 07-11 Treasurer's Investment Report***

During our testing of cash and investments we noted the following conditions:

- The City did not submit the June 30, 2007 Investment Report within 30 days of the end of the month. Per California Government Code Section 53646(2) (b), if a City prepares and submits an Investment Report to City Council, it must be submitted within 30 days of the month end.
- The Investment Reports for the period ending June 30, 2007 did not include investments held by third parties (fiscal agents) as required by Government Code Section 53646 (b) (1).
- The Investment Report for the period ending June 30, 2007 did not include investment ratings as required by Government Code Section 53646 (b) (1).

**CITY OF COMPTON**  
**Status of Prior Year Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2009**

**Recommendation:**

We recommend that:

- The City establish and follow a policy to comply with all Government Code requirements relating to cash and investments.
- Reconciled cash balances be reported in the Investment Report.

**Current Year Management Response:**

The City Treasurer will review the referenced Sections of the California Government Code to determine their applicability. If they are applicable, the Treasurer will comply with the requirements. Corrective actions will be fully implemented in the 2008/2009 financial year.

**Current Status:**

Partially implemented. Please see Finding 08-11 and 09-06.